

BOOK - KEEPING

AND

ACCOUNTS

A TEXT-BOOK FOR STUDENTS

BY

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WALES; SENIOR EXAMINER IN BOOK-KEEPING TO THE ROYAL SOCIETY
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PREFACE

THE author feels that some apology is due from him for adding yet another to the large number of works on Book-keeping which already exist. The only excuse he has to offer is that considerable pressure was brought to bear upon him to undertake the work. It was urged that his somewhat extensive experience as an examiner and lecturer should enable him to appreciate, and deal helpfully with, the difficulties presented by the subject to the average student.

It is not for the author to judge whether he has benefited by this experience sufficiently to justify the appearance of this treatise. He does, however, claim to have made every endeavour to explain whatever knowledge he has of the subject in as simple and concise a manner as possible. Those doubts and difficulties which experience has shown to be very real and troublesome to the examination candidate have been especially kept in view, and, in dealing with them, earnest attempt has been made to achieve clearness even at the risk of platitude and iteration.

It would be a matter of regret to the author if this treatise should come to be regarded merely as an aid to the successful passing in examinations. It is hoped that it may be found to possess real educative value, especially in the elucidation of those preliminary stages through which all book-keeping transactions must pass before their final destination is reached. The principles and details which underlie and govern these preliminaries are of vital importance to the student who is to enter commercial life.

It becomes increasingly evident from the examination work of the present day that many students have acquired knowledge for examination purposes in a scrappy and ill-digested form, the eagerness to obtain examination certificates having apparently predominated over the far more important necessity of laying sound foundations for future success in life.

The limited leisure at the disposal of the author would have greatly delayed the accomplishment of the work without the able and loyal assistance rendered by Mr. Stanley G. Smith, A.C.A., "Final" Prizeman, Institute of Chartered Accountants, a former pupil of the author's.

L. C. C.

16, *Finsbury Circus*,
London, E.C.

Cheque with Receipt Form attached

The form of cheque referred to and illustrated on p. 189 is open to criticism for the reason that cheques come within the provisions of the Bills of Exchange Act and the order to pay should be unconditional.

Valuing Stock (see p. 96)

The valuation of stock at the end of a trading period should be at the actual *cost price*; or, if the stock has fallen permanently below the cost price, at the *market price*.

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BOOK-KEEPING AND ACCOUNTS

CHAPTER I

ELEMENTARY THEORY

BOOK-KEEPING has been defined on so many occasions for the benefit of the student that it is difficult, and indeed unnecessary, to find anything new to say in the way of definition; it has been well and briefly described as "the art of recording business transactions with the view of having a permanent record of them and of showing their effect upon wealth." Alternatively, book-keeping may be described as the science of recording transactions in money or money's worth in such a manner that, at any subsequent date, their nature and effect may be clearly understood, and that, when required, a combined statement of their result may be prepared.

It will be noted that the above definitions do not prescribe any particular system of book-keeping, and leave the student to infer that any method which proves itself to be efficient is capable of being employed. From the earliest days, whenever barter involved the introduction of credit, some form of book-keeping became necessary, even though it took the elementary form of the notched stick or the chalked-up score! In modern practice, however, only one system of book-keeping can be said to have become generally recognized as completely satisfactory, viz. that which is known as the "**Double Entry**" method, although other systems are still occasionally to be met with. The Double Entry method first came into general use by the Italian merchants in the fifteenth century, at a time when the cities of Northern Italy were the principal trading centres of Europe; from Venice and Genoa the system made its way to the commercial cities of the Low

Countries, finally appearing in England about the beginning of the seventeenth century. It may be claimed for Book-keeping by Double Entry that it is the only "system" worthy of general adoption, there being no other which affords the trader so complete a history of business dealings, coupled with a comprehensive statement of their result; while, on the other hand, the "Single Entry" and other anomalous methods of keeping books are usually, in practice, very little better than series of disconnected memoranda, necessarily incomplete, and often actually misleading.

An endeavour to explain the science of Book-keeping by Double Entry forms the principal object of this treatise; as, however, the "Single Entry" method is still to be met with, and candidates for examination are occasionally asked questions based upon this system, it is necessary to deal with the subject also. A brief description of the Single Entry method and its shortcomings will therefore be found in Chapter XIII.

The dealings of an individual in regard to money or money's worth are, in practice, termed his "**Transactions**," and one of the primary objects of book-keeping is their *classification* in a form readily accessible for subsequent reference.

A trader's transactions may, at the outset, be *classified* according to the person or object to whom, or to which, they relate.

If the trader deals in horses and sheep, and lends sums of money to John Smith, a preliminary division of his transactions would embrace three classes, viz. (1) those which relate to horses, (2) those which relate to sheep, and (3) those which relate to his dealings with John Smith.

The book in which a trader's transactions are recorded in a classified permanent form is called the "**Ledger**."

Very little reflection will, however, serve to show that it would not suffice for a trader merely to record his dealings with persons or objects in classified form in a Ledger, and to do no more than this. Transactions entered into by the trader with any particular person may be of two kinds, *i. e.* they may result in making that person either (1) the debtor or (2) the creditor of the trader with whom he has dealt, whose transactions it is desired to record. Similarly, transactions in material objects may be either purchases or sales.

It is thus needful that the Ledger shall record transactions not only under their appropriate *general* heading, but also according to their aspect with regard to the trader himself. To fulfil this requirement the Ledger is ruled as under—

SPECIMEN LEDGER ACCOUNT														
Dr.											Cr.			
A	B	C	D	E	F	G	H	I	J	K	L	M	N	

The name of the person dealt with, or object dealt in, by the trader is placed at the top of the account.

Transactions are entered in columns A to G or in columns H to N, according to the relation which they bear to the trader owning the Ledger. Taking first the left-hand side of the Ledger account, columns A and B are designed to record the date (month and day) of each transaction; column C is to record the details showing the nature of the item; column D contains a page reference to the book wherein appears a preliminary and more detailed record of the transaction; while columns E, F and G contain the amount of the transaction in pounds, shillings, and pence. The right-hand side of the Ledger account is designed to provide for the entry of transactions of similar general nature to those appearing upon the left-hand side of the account, though opposite in their effect as regards the trader himself, consequently columns H to N are a repetition of those on the other side of the account, the uses of which have already been enumerated.

Columns A to G together make up what is called the "**Debit**" side of the Ledger account, and columns H to N collectively form the "**Credit**" side. Abbreviations of these words appear at the top of the account under the forms "**Dr.**" and "**Cr.**"

Ledger accounts relating to the trader's dealings with *persons* are constructed as follows—

The account kept by the trader with each person with whom he deals is *debited* with all moneys, objects, and values paid or transferred by him to the person with whom he is dealing, and is *credited*

with everything received by the trader from such person.

Since everything paid by the trader to the other party is thus entered on the debit side, and all receipts from him are entered on the credit side, it follows that the difference between the totals of the two sides represents the net sum owing between the parties, and this sum is owing *to* or *by* the trader according as the debit side of the account is greater than the credit side, or the reverse.

An example of a "**Personal Account**" (*i.e.* an account between persons) is appended.

I. Personal Account in the Ledger of A. Brown, Merchant

Dr.		JAMES BLACK				Cr.				
1908.		£	s.	d.	1908.		£	s.	d.	
Jan. 1	To loan to J. Black.....	10	0	0	Jan. 7	By cash, repayment of loan	10	0	0	
" 8	" loan to J. Black.....	10	0	0	" 11	" cash, repayment of loan	10	0	0	
" 17	" horse sold to J. Black.	60	0	0	" 17	" carriage bought from J. Black....	80	0	0	
" 25	" cash paid to J. Black.	10	0	0						
" 31	" cash paid to J. Black.	10	0	0						
		£	100	0	0		£	100	0	0

In this account, which is shown as it would be kept by A. Brown, a trader, his transactions with James Black are recorded. The first two items on the debit side of the account record loans made by A. Brown to J. Black; the third entry records the price of a horse sold to J. Black by A. Brown; and the remaining two items on this side of the account represent cash payments, by A. Brown to J. Black. The items on the credit side record moneys received by A. Brown from J. Black, concluding with the purchase price of a carriage bought by A. Brown.

It will be noted that the items on each side of this account total up to the same amount, showing that the transactions between the parties result in equilibrium. If, however, the total of the credit items had exceeded the total of the debit items, it would have indicated that Black was Brown's creditor for the difference, and *vice versa*. Such differences are termed "**Balances**."

It is customary in the case of all Ledger accounts, whatever be their nature, to add up the two sides of the

Ledger to have been correctly kept, these two totals, if extracted or compiled from the Ledger accounts, should agree. This fact is of the greatest value to a trader, and enables him to check the accuracy of his book-keeping. If the totals, when so extracted, fail to agree, it follows, either that the totals have been incorrectly compiled, or that the Ledger has been entered up inaccurately. It is usually a comparatively simple matter to eliminate errors made in compiling the totals of Ledger postings, and their subsequent agreement or disagreement either raises an inference (not of necessity conclusive) that the posting of the Ledger is correct, or proves, on the other hand, that it contains an error or errors. This possibility of readily ascertaining, from the disagreement of the totals of the "Trial Balance," that error exists in the Ledger is, in practice, one of the principal utilities of Double Entry book-keeping; other systems provide no such means of disclosing error.

The totals of Ledger postings extracted from a Ledger are, as has been indicated, known as the **Trial Balance**. In former days Trial Balances were compiled exactly as has been explained. It is generally customary in practice now-a-days to extract the *balances* of the various accounts contained in a Ledger instead of compiling the *totals* of the entries appearing on both sides, but inasmuch as each balance itself incorporates the effect of the postings on either side of the account in which it appears, the principle remains unchanged. In preparing Trial Balances in answer to examination questions, the student will be wise to enter balances in preference to totals.

In cases where the trader exchanges one material object for another, or enters into transactions in material objects with his debtors or creditors, only Real and Personal Accounts are involved, and sufficient has been stated already to enable the student to understand how to effect the necessary "double entry" in each instance. There remain to be considered those transactions which, at first sight, appear only to concern *one* Personal Account, or *one* Real Account, and which consequently may seem to be incapable of being resolved into the necessary form of a "double" entry. The most numerous of these transactions are those wherein—

1. The trader acquires an object, or a debt becomes due to him, without his giving any corresponding

- object or property in exchange, *i. e.* where he makes a *profit*. Or where,
2. The trader parts with some object, incurs a liability, or is deprived of some portion of his property without acquiring anything in exchange which he can regard as property, *i. e.* where he incurs an expense or a *loss*.

Transactions of the above nature are entered firstly, so far as they concern Real or Personal Accounts, in such accounts on their appropriate sides, and secondly, in order to complete the double entry, in accounts termed **Nominal Accounts**, opened in the Ledger to record the opposite *aspect* of the transactions. In other words, to complete the double entry in the case of profits made or received by the trader, accounts are opened in the Ledger for such profits, and in these accounts the receipts are entered on the credit side. Conversely, losses made or expenses incurred by the trader are recorded in separate "Loss" or Expense Accounts on the debit side, again for the necessary purpose of completing the double entry.

Example.—If the trader receives in cash £20 by way of commission, and pays thereout £5 for travelling expenses, both the £20 and the £5 will appear in his Cash Account, the former on the debit side and the latter on the credit side. By opening a Ledger account for "Commission," and by crediting the £20 in this account, the double entry is completed as regards this item, and by opening a Ledger account for "Travelling Expenses," to which the £5 is debited, the double entry of the other transaction is also effected.

It would be possible for the trader to keep only *one* nominal account in his Ledger to record all his gains and losses, instead of keeping a separate nominal account to complete the double entry of each kind of loss or gain, and in point of fact many of the older books on book-keeping prescribe this method. In practice, however, this procedure is not convenient, as the trader usually desires to know the totals of each kind of loss or gain over a given period of time, and this object cannot be attained without tedious analysis if all items of gain and loss are merged more or less confusedly in one account. At the end, however, of a given period of time, *e. g.* at the end of a year, it is customary for the various accounts representing losses and gains to be combined in a new Ledger account, styled the **Profit and Loss Account**, opened for that special purpose; each separate "Loss" or

"Gain" account previously existing is closed by making an entry representing the total of the items already appearing in it, on the opposite side to that upon which such items appear, and a fresh entry for the *total* only is then made in the "Profit and Loss Account," on the same side as that upon which the original items appeared in the separate Ledger account.

These total entries in the Profit and Loss Account then replace the masses of separate items previously entered on one side or the other in the original accounts recording losses or gains.

One other nominal account is to be found in the Ledger of every trader, and in every example of Double Entry book-keeping, and remains to be explained, viz. the **Capital Account**. This account, again, arises out of the necessity for completing the "double entry" as previously explained, and it represents the difference between a trader's possessions and his indebtedness, either at the date of his commencing to keep books by Double Entry, or at any subsequent date upon which he may calculate his net worth.

When a trader commences to keep his books by Double Entry all property owned by him is entered, according to the rules previously laid down, on the debit side of the appropriate Real or Personal Account, and all sums owing by him are entered on the credit side of accounts opened under the names of his creditors. Except in the very unlikely case of the trader's total liabilities being exactly equal in amount to the total value of his possessions the total entries (for property and debtors) thus made on the debit side in his Ledger will not exactly equal the total entries (for creditors) made on the credit side; and, consequently, in order to make the double entry complete, an account headed "Capital" is opened for the difference between the trader's possessions and his liabilities. In this account is entered (on the credit side) the excess of the possessions over the liabilities at the date of opening the books, or (on the debit side) the excess, if such there be, of the trader's liabilities over his possessions; in this way it is brought about that the total balances entered on the debit side of the Ledger equal exactly the amount of the balances entered on the credit side. The balance appearing on the "Capital" Account thus represents either the net worth of the trader in his business, or the net amount by which he is insolvent.

Example.—J. Jones starts book-keeping with the following assets: (1) Shop property valued at £1,200, (2) Goods worth £300. He owes Brown & Company. £600. Jones is thus really worth £1,200 + £300 - £600 = £900, and in opening his books he must (1) *debit* £1,200 to a "Shop Property" Account, (2) *debit* £300 to "Stock" Account, (3) *credit* £600 to Brown & Company's account, and finally, (4) *credit* £900 to "Capital" Account.

The net balance of the trader's combined Profit and Loss Account (cf. *supra*) is, at the date at which the latter is prepared, transferred from the Profit and Loss Account to the Capital Account, thereby recording the increase (or decrease) in the trader's net worth at the close of the period to which the Profit and Loss Account relates.

Sufficient has now been said to indicate the general nature of the accounts appearing in a Ledger kept upon the Double Entry principle, and by way of further illustration a brief example is appended. It may, however, be said for the purposes of reference that the balances appearing in a Ledger at any particular date may be classified as follows, viz.—

Debit Balances (*i. e.* balances of accounts wherein the entries on the debit side exceed those on the credit side), representing either (1) Property, (2) Debts due to the trader, or (3) Losses or expenses.

Credit Balances, representing: (4) Debts owing by the trader, (5) Profits made, or (6) The amount of the trader's capital at the last date up to which it was ascertained.

When (3) and (5) (Losses and Profits) have been combined in a single "Profit and Loss Account," whereof the net balance has been transferred to (6) (Capital), the balances on the Ledger remaining are (1) Property, (2) Debts owing to the trader, (3) Debts owing by the trader, and (6) the Trader's Capital or net worth.

A trader's gross possessions and the debts due to him are, in book-keeping, known as his **Assets**, and the debts owing by him to other persons are known as his **Liabilities**; capital may thus be crudely described as the excess of a trader's assets over his liabilities. If the trader's liabilities exceed his assets, the entry in the "Capital" Account must perforce appear on the debit side, and indicates a condition of insolvency; the use of the term "Capital" in such a case obviously becomes somewhat of a misnomer.

Example.—1. James Wilson started business on November 2, 1908, as a cycle dealer.

2. On November 3 he borrowed £100 from Robert Wilson in cash.

3. On November 4 he bought on credit 10 bicycles from the Speed Manufacturing Company at £8 each.

4. On November 5 he sold 5 bicycles to H. Brown on credit at £10 each.

5. On November 6 he paid the Speed Manufacturing Company £40 on account.

6. On November 7 he sold 5 bicycles for cash at £9 10s. each, receiving the money.

7. On November 9 he paid £4 cash for expenses to date.

8. On November 10 he wrote up his books and ascertained his position.

These transactions must be recorded in James Wilson's Ledger as follows—

(2) *Debit Cash Account and credit R. Wilson with £100.*

Cash having been received, and a debt to R. Wilson having been incurred.

(3) *Debit Bicycles Account and credit Speed Manufacturing Company with £80.*

Bicycles of that value having been received, and a debt to the Speed Manufacturing Company for a like amount having been incurred.

(4) *Debit H. Brown and credit Bicycles Account with £50.*

Bicycles having been parted with, and a debt from H. Brown having become due to the trader (J. Wilson).

(5) *Debit the Speed Manufacturing Company and credit Cash Account with £40.*

Cash to this amount having been parted with to the Speed Manufacturing Company.

(6) *Debit Cash Account with £47 10s. and credit Bicycles Account.*

Cash having been received, and bicycles of this value having been parted with.

(7) *Debit "Expenses" Account and credit Cash with £4.*

Cash to this amount having been parted with, without any material property having been received.

12 BOOK-KEEPING AND ACCOUNTS

J. WILSON'S LEDGER

ACCOUNT No. 1.

Dr.			CASH			Cr.				
1908.			£	s.	d.	1908.		£	s.	d.
Nov. 3	To R. Wilson, loan	3	100	0	0	Nov. 6	By Speed Man- ufacturing Company, payment on account.....	5	40	0 0
7	„ Proceeds of 5 bicycles sold for cash	2	47	10	0	9	„ Expenses to date.....	6	4	0 0
						10	„ Balance car- ried down...	✓	103	10 0
			£	147	10 0			£	147	10 0
1908.										
Nov. 10	To Balance brought down.....	✓	103	10	0					

ACCOUNT No. 2.

Dr.			BICYCLES ACCOUNT			Cr.					
1908.		£	s	d.	1908.		£	s.	d.		
Nov. 4	To Cost of 10 bicycles bought from Sneed Manufacturing Company.....	5	80	0	0	Nov. 5	By Proceeds of 5 bicycles sold to H. Brown.....	4	50	0	0
„ 10	„ Balance transferred to Profit and Loss Account.....	7	17	10	0	„ 7	„ Proceeds of 5 bicycles sold for cash	2	47	10	0
		£	97	10	0			£	97	10	0

ACCOUNT No. 3.

Dr.		R. WILSON (Loan Account)				Cr.	
		1908.				£	s. d.
		Nov. 3	By Cash (loan)	1		100	0 0

ACCOUNT No. 4.

Dr.		H. BROWN				Cr.	
1908.			£	s.	d.		
Nov.5	To 5 Bicycles at £10 each.	2	50	0	0		

ACCOUNT No. 5.

Dr. **SPEED MANUFACTURING COMPANY Cr.**

			£	s.	d.	1908.	£	s.	d.
1908.									
Nov. 6	To Cash on account.....	1	40	0	0	Nov. 4	By 10 Bicycles at £8 each...	2	80 0 0
" 10	" Balance carried down...	✓	40	0	0				
			£	80	0 0			£	80 0 0
						1908.			
						Nov. 10	By Balance brought down.....	✓	40 0 0

ACCOUNT No. 6:

Dr. **EXPENSES ACCOUNT Cr.**

			£	s.	d.	1908.	£	s.	d.
1908.									
Nov. 9	To Cash.....	1	4	0	0	Nov. 10	By Balance transferred to Profit and Loss Account...	7	4 0 0
			£	4	0 0			£	4 0 0

ACCOUNT No. 7.

Dr. **PROFIT AND LOSS ACCOUNT Cr.**

			£	s.	d.	1908.	£	s.	d.
1908.									
Nov. 10	To Expenses	6	4	0	0	Nov. 10	By Bicycles (gross profit on).....	2	17 10 0
" 10	" Net Profit transferred to Capital Account ...	8	18	10	0				
			£	17	10 0			£	17 10 0

ACCOUNT No. 8.

Dr. **CAPITAL ACCOUNT Cr.**

			£	s.	d.	1908.	£	s.	d.
						Nov. 10	By Net Profit to date, transferred from Profit and Loss Account ...	7	18 10 0

The above entries (2—7) having been entered in the Ledger, James Wilson proceeds to balance and rule off his books to ascertain how he stands.

In order to prove that he has correctly posted his Ledger he first extracts his "Trial Balance," *i.e.* he copies on a separate loose sheet the balances appearing on the Ledger accounts, discriminating between those in which the excess of entries appears on the Debit side, and those in which the excess appears on the Credit side.

For example, the Cash Account on November 9th shows debit entries totalling £147 10s. against credit entries amounting to £44. There is thus an excess of entries on the Debit side of £103 10s., which, incidentally, represents the amount of cash in hand on November 9th.

Following the above principle, J. Wilson constructs the Trial Balance as under—

TRIAL BALANCE, November 9th, 1908

ACCOUNTS	FOLIO	DR.			CR.		
		£	s.	d.	£	s.	d.
Cash	1	103	10	0			
Bicycles	2				17	10	0
R. Wilson	3				100	0	0
H. Brown	4	50	0	0			
Speed Manufacturing Company	5				40	0	0
Expenses	6	4	0	0			
		£157	10	0	£157	10	0

Since the totals of the two sides of the above Trial Balance tally, J. Wilson is justified in assuming that his Ledger posting is correct.

Turning again to the above Trial Balance, it will be noted that there are two accounts which represent, one a profit, and the other a loss, *viz.* "Bicycles" Account and "Expenses" Account respectively.

As long as J. Wilson possessed any stock of bicycles the account kept for bicycles disclosed a Debit balance representing an asset, but since all his bicycles have been sold the balance has become a Credit, and now represents a profit.

The balances on "Bicycles" Account and "Expenses" Account are transferred to a new account called "Profit and Loss Account," wherein they are entered on the same sides of the account as those upon which they appear in the Trial Balance.

There is, then, a balance of £13 10s. to the credit of the Profit and Loss Account; this balance represents the net

earnings of J. Wilson in his cycle business from November 2nd to November 10th, and must be transferred to J. Wilson's Capital Account. It is to be noted that whereas J. Wilson started business without possessing anything, and with £100 borrowed from a friend, he has now made £13 10s., and to that extent has become a capitalist. Following the above definition of Capital as an excess of Assets over Liabilities, the student will naturally expect to find that J. Wilson possesses, in one shape or another, £13 10s. more than he owes, and a reference to the Trial Balance will show this to be the case.

J. Wilson's assets are cash (£103 10s.) and a debt due to him by H. Brown (£50), *i. e.* £153 10s. in all; on the other hand, he owes a total of £140 to R. Wilson and the Speed Manufacturing Company, and the difference between these totals, in other words, his "Capital," is found to correspond with the balance (£13 10s.) appearing on his Capital Account as on November 10th. This, of course, is an inevitable consequence of correct Double Entry book-keeping.

Having transferred the balance of the Profit and Loss Account to the Capital Account, J. Wilson "balances" (*i. e.* rules off and brings down the balances on) his Ledger, and then constructs a fresh Trial Balance with the sides reversed. This second compilation is called a "Balance Sheet," and is drawn in the form which is usually adopted in English commercial practice.

**J. WILSON, BALANCE SHEET, as on
November 10th, 1908**

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Capital Account—				Cash in Hand.....	103	10	0
J. Wilson.....	13	10	0	Debtor—			
Creditors—				H. Brown.....	50	0	0
R. Wilson (Loan)..	100	0	0				
Speed Manu- facturing Com- pany	40	0	0				
	£153	10	0		£153	10	0

In the foregoing example J. Wilson has been shown as having disposed of the whole of his bicycles before the end of his trading period; had this not been the case a slightly different procedure would have been necessary, as follows. After having extracted his Trial Balance, and before opening his Profit and Loss Account, it would have been

necessary for J. Wilson to place a value upon the bicycles remaining on hand unsold, as on the 10th of November; for the total value of the stock of bicycles thus arrived at an entry would have been passed through the books crediting the Bicycles Account for the period 2nd to 10th of November (as if the bicycles on hand had been disposed of immediately prior to closing the books for the period), and debiting a new Bicycles Account opened for the succeeding period; in this new account the "stock at cost brought forward" would have formed the first entry. The Bicycles Account for the period 2nd to 10th of November would then have been shown in such a form that all the bicycles would appear to have been disposed of, the credit balance then disclosed by the account would represent the gross profit made, just as in the account set forth on page 12, and would have been transferable to the Profit and Loss Account.

The following example illustrates the Bicycles Account of J. Wilson as it would have appeared had he, on the 7th of November, sold only four bicycles at £9 10s. apiece instead of five. In this case one bicycle would have remained on hand at the 10th of November, and would have required to be carried forward to a fresh bicycle account to be opened for the succeeding period. The starting balance of £8 "brought down" in the new Bicycles Account for the period commencing 11th of November would have formed one of the Ledger balances outstanding as on the 10th of November, and would, of course, have required to be taken into any Trial Balance prepared at that date, in order that the two sides might agree.

ACCOUNT No. 2A.

BICYCLES ACCOUNT, for the period from November 2nd to November 10th, 1908

Dr.				Cr.			
1908.		£	s. d.	1908.		£	s. d.
Nov. 4	To cost of 10 bicycles bought from the Speed Manufacturing Company.....	5	80 0 0	Nov. 5	By proceeds of 5 bicycles sold to H. Brown.....	4	50 0 0
" 10	" Balance transferred to Profit and Loss Account.....	7	16 0 0	" 7	" Proceeds of 4 bicycles sold for cash.....	2	38 0 0
				" 10	" Stock (1 bicycle) on hand carried forward to Bicycles Account for next period valued at cost (£8).....	✓	8 0 0
						£96	0 0
						£96	0 0

ACCOUNT No. 2B.

BICYCLES ACCOUNT, for the period from November
Dr. 11th, 1908, to.....1909 Cr.

1908.		£	s.	d.					
Nov. 11	To Stock (1 bicycle) brought forward from last period valued at cost..	✓	8	0	0				

EXERCISES.

Enter the following transactions in a Ledger, preparing therefrom a Trial Balance, Trading and Profit and Loss Accounts, and a Balance Sheet, upon the lines laid down in Chapter I.

EXERCISE 1A.

The transactions of R. Jones were as follows:—

1909.

- Jan. 1. Started business as a tea-dealer.
 „ 2. Borrowed £200 from Brown Bros.
 „ 3. Bought on credit tea from the Lampan Plantations, Ltd., £250.
 „ 4. Paid Lampan Plantations, Ltd., on account, £150.
 „ 5. Sold part of the tea to Harris & Co. on credit for £200.
 „ 6. Sold the remainder of the tea by auction for cash, £105.
 „ 8. Received from Harris & Co. cheque for £200.
 „ 9. Paid Lampan Plantations, Ltd., further on account, £50.
 „ 10. Paid expenses in cash, £5.

EXERCISE 1B.

The transactions of O. Smith were as follows:—

1909.

- Feb. 1. Started business with £100 cash in hand.
 „ 2. Bought for cash fancy goods, £80.
 „ 3. Lent Horne & Co., £10.
 „ 4. Sold to Robertson Bros. half the fancy goods bought on Feb. 2 for £70, which sum was immediately paid by Robertson Bros. to O. Smith in cash.
 „ 5. Lent Horne & Co., £30.
 „ 6. Paid in cash expenses, £4.
 „ 8. Bought on credit fancy goods from the Western Manufacturing Company, £60.

NOTE.—Stock of goods on hand as on Feb. 8th is to be valued at cost, £100 (made up of the cost price of the remaining half of the goods, bought on Feb. 2nd, £40, plus cost of the goods bought on Feb. 8th, £60).

EXERCISE 1C.

The transactions of William Murray were as follows:—

1909.

- Mar. 17. Started business with Stock of Goods valued at £150,
 Cash £50, and owing Wallace Brothers £85.
 „ 19. Sold to Harriman & Co., goods on credit £25 10s.
 „ 20. Bought goods from A. Morris upon credit, £36 5s.
 „ 21. Paid to A. Morris, in cash, £20 on account, and paid
 to Wallace Brothers £15 on account.
 „ 22. Received from Harriman & Co., cash, £25 10s.
 „ 23. Paid expenses, cash, £4.

NOTE.—Stock on hand as on March 23rd to be valued at £170.

EXERCISE 1D.

The transactions of G. Smith were as follows:—

1909.

- April 6. Started business with £500, cash.
 „ 7. Bought goods for cash, £365.
 „ 9. Sold goods on credit to A. Brown, £350.
 „ 11. Paid in cash, expenses and advertising, £10.
 „ 12. Sold goods on credit to R. Jones, £19.
 „ 13. Paid in cash salaries, £2.
 „ 15. Received cash from A. Brown on account, £300.
 „ 17. Paid in cash office rent and housekeeping expenses,
 £2 5s.

NOTE.—Stock on hand as on April 17th, Nil.

Answers.

- 1A. Net Profit, £50 ; Final Balance of Capital Account, £50.
 1B. „ £26 ; „ „ „ £126.
 1C. „ £5 5s. ; „ „ „ £120 5s.
 1D. Net Loss, £10 5s. ; „ „ „ £489 15s.

CHAPTER II

ELEMENTARY COMMERCIAL PRACTICE

BEFORE proceeding to outline the methods of Double Entry book-keeping in its application to modern commercial practice, some brief explanation of the main features of a trader's ordinary transactions may be useful, and, indeed, is perhaps needful; this chapter is consequently utilized for the purpose of explaining certain matters of everyday occurrence in the business of almost every trader.

The custom of keeping a Banking Account, and the extensive use of cheques in paying and receiving sums of money first claim attention.

In countries where a proper system of banking cannot be said to have been established, the trader is naturally forced to keep his spare cash in the form of coined gold and silver, and to retain the same in his own possession, subject to such safeguards in the way of locks and strong boxes as circumstances will permit. Whenever money is paid to any person he is put to the trouble of counting it over, and of satisfying himself as to its weight and currency, and where large sums change hands frequently the loss of time arising out of these tedious operations is obviously considerable.

The above difficulties are surmounted, to a large extent, by the modern practice of banking. Now-a-days very few traders retain any considerable sum in specie in their possession, the majority depositing their spare money with a Bank. A Bank is an institution the object of which is the receipt of deposits of money from the community at large, coupled with the obligation of repaying the same to the depositor, or to any person or persons designated by him, when called upon to do so. The trader who thus keeps his cash balance with his Banker, instead of in his own possession, avoids the risks attendant upon the custody of a large sum in specie, and acquires the facility of being able to direct payment by the Bank of any

desired sum of money to himself or to any other person or persons within the limits of the amount held by the Bank on his behalf at any particular time. Money thus placed with a Banker to be drawn against at sight by means of cheques is said to be placed with the Banker upon "**Current Account.**"

The payments thus made by Bankers on behalf of the trader are made by them on presentation of signed orders called "**Cheques,**" which set out the sum of money to be paid and the name of the payee, and bear the trader's signature. Cheques can be made out for any sum of money, however large or small, provided always, of course, that they do not exceed the trader's credit balance with his Banker.

On the following page is a form of cheque in common use.


The left-hand portion of the above form is called the "**Counterfoil.**" When the cheque itself has been filled in it is torn off where the perforated line is shown and handed or posted to the person in whose favour it has been made payable, who is called the "**Payee.**" The details of the cheque (date, payee, what the payment is for, amount, etc.) are entered in brief on the counterfoil, and the details thus recorded are subsequently used for writing up and checking the Cash Book and for comparison, in due course, with the Bank Pass Book.

The many advantages of the cheque system of making payments have become so generally recognized that by far the greater part of a trader's receipts come to him in the form of cheques, which he, in his turn, deposits with his own Banker for collection on his behalf. Such cheques, when collected, are duly placed by the Banker to the credit of the trader's account. Similarly, almost all the modern trader's payments are made by cheque.

For the settlement of retail transactions, and for small cash payments, the use of cheques has not attained as great a vogue as is the case with wholesale transactions, and in making payments of moderate amount; most traders, consequently, are still obliged to keep small sums in coin on their premises, but the sums so held are, in the majority of cases, relatively insignificant. The name commonly applied to the small sums so held in coin for the purpose of making payments of a trifling nature is that of "**Petty Cash,**" and, in most businesses, all money except the "**Petty Cash**" is kept, as indicated above, in the hands of the Bankers.

CHEQUE.—N.B. Stamp now 2d.

No. PE98343 London 3rd January 1908

The Union of London & Smiths Bank 

No. 2, Princess Street, Mansion House, London, E.C. 4.

Pay Messrs J. H. & Co. Bankers or Order

One hundred and twenty pounds

£120-0-0

This Cheque must be endorsed by the party to whom it is made payable.

COUNTERFOIL.

No. PE98343

3rd Jan. 1908

Finch & Wrocker

In settlement

of account

£120-0-0

The book supplied by a Banker to his customer containing a copy of the latter's Ledger Account with the former is called the "**Bank Pass Book**," or, briefly, the "**Pass Book**." This book is delivered to the customer at the time of, or soon after, the opening of his Banking Account, and is periodically returned by him to his Banker to be written up to date.

In the course of his business operations a trader frequently requires additional funds wherewith to embark upon special transactions, or to enable him to cope with the increasing magnitude of his business, and for these purposes he often obtains loans either from his Bank or among his friends at such rates of interest as he is able to bargain for. It may be assumed that, as a general rule, a Banker will not advance money to a trader without some substantial and tangible security, whereas private friends may be willing, in certain cases, to trust to the trader's reputation for ability and integrity without any special security to cover their advances. In almost every case it is the question of the presence or absence of security, specifically given to cover the loan, which fixes the rate of interest the trader is obliged to pay for the convenience extended to him; a loan may be obtainable from a Bank at slightly above current bank rate, if the security offered is considered to be adequate, whereas upon an unsecured loan obtained from business or other friends a higher rate of interest will, naturally, frequently be demanded.

As regards a trader's Current Account with his Banker, the latter always contemplates, in opening an account, that a sufficient balance shall be maintained by the trader to cover the Banker's expenses and to allow a small margin of profit for the trouble of keeping the account. As a general rule a permanent balance of £100 in London and £50 in the country will be regarded by the Banker as sufficient in the case of an account where no very large number of cheques are drawn, but, if the balance frequently falls below these limits, the Banker will usually make an annual charge (called a "commission") for conducting the trader's Banking Account.

According to the custom of London Bankers no interest is allowed to the trader upon money placed by him to the credit of his Current Account, but interest is allowed upon sums specifically placed with the Banker upon "**Deposit Account**." Deposit Accounts cannot be drawn upon by cheque, nor is the money usually repayable upon

demand as in the case of Current Accounts; a stated period of notice (usually seven days) is required before the withdrawal of any part of a Deposit Account balance, and upon the money entrusted with a Banker upon these terms interest, varying with the value of money for the time being, is allowed. The rate allowed is usually $1\frac{1}{2}$ per cent. below "**Bank rate**," *i.e.* the current official discount rate of the Bank of England. A trader who finds that his Current Account shows a balance considerably in excess of his immediate future requirements can transfer a portion of the money thus lying idle from Current Account to Deposit Account, and thus obtain the advantage of the interest allowed on the latter; he can subsequently re-transfer from Deposit Account to Current Account such sums as he may need from time to time.

In the north of England an arrangement sometimes exists among Bankers of (1) allowing the trader interest upon sums kept with them upon Current Account, and (2) charging him a fixed rate of commission upon the total of the cheques drawn by him over any given period; this custom is perhaps more equitable to both parties than the London custom of allowing no interest upon Current Account, and of charging no commission for keeping the account unless the balance falls well below the standard which is usually expected to be maintained, but the labour involved to the Banker in calculating both interest and commission upon a large number of Current Accounts is obviously very great. The custom of allowing interest upon Current Accounts, and of charging a commission upon the drawings, exists largely, also, upon the Continent, where, however, the system of making payments by cheque has not attained the same popularity with which it is regarded in this country.

Another commercial practice requiring explanation is the method usually adopted by traders when effecting purchases and sales of the commodities in which they deal.

A trader may buy or sell goods for immediate payment, or he may sell them on the condition that he receives payment for them at some future date; in the former case the transaction is said to be "**For Cash**," and in the latter it is said to be "**Upon Credit**."

When a trader has sold goods **Upon Credit**, that is, when payment for them must be made on a future specified date, he usually allows any purchaser who may

desire to pay for the goods before that specified date, a percentage on the amount payable. This allowance or deduction is called a **Discount for Cash**, or **Cash Discount**. There is another kind of discount, called **Trade Discount**, which may be described as follows:—Many wholesale traders issue Price Lists (or Catalogues) in which their goods are described and advertised for sale at standard prices. From these prices certain deductions, called Trade Discounts, are made, the percentage varying in different trades.

Cash Discount and Trade Discount must not be confounded with each other; both of them may be, and frequently are, allowed to the purchaser in the same transaction. The Trade Discount reduces the catalogue price to the real selling price; while the Cash Discount is offered as an inducement to the purchaser to discharge his obligation to pay at an earlier date than he otherwise would.

The great advantage of the Trade Discount system lies in the fact that in many trades prices are subject to frequent, and often sudden, fluctuations. These fluctuations may be caused by excess of the demand over the supply of the manufactured articles; or by excess of the supply over the demand; or by an excessive or a diminished production of the raw material; or by other causes. It is obvious that the alteration of a great number of prices in a trade catalogue to meet every fluctuation would involve the necessity of continually issuing new Price Lists, with a consequent waste of time and money. On the other hand, a notification to the trader's customers that the Trade Discount has been changed is as effective and is a much quicker and more convenient method of adjusting prices.

In modern practical book-keeping, Trade Discounts are not incorporated as such in the trader's Ledger; a memorandum of their having been granted is made in the book wherein the sale is first recorded, and the transaction is passed through the Ledger as though the goods had originally been sold at the standard list price, less the Trade Discount.

Goods which, upon delivery by a seller to a purchaser, are found to be unsatisfactory in some respect, *e.g.* "not up to sample," are usually permitted to be returned by the latter to the former, and an allowance is usually made for them, calculated at the full original price agreed upon between the parties. These transactions are termed

"Returns," and are styled "Returns Inwards" and "Returns Outwards," according as they are received by or returned by the trader whose transactions are to be recorded.

An enterprising trader usually prefers to receive prompt payment of the debts due to him, even at the sacrifice of a portion of the profit on each transaction; he has his own creditors to satisfy, and, in addition, he is usually influenced by the reflection that the more rapidly he can obtain payment of the debts due to him, the more expeditiously he can embark in fresh transactions.

In order to combine the debtor's inclination to defer payment until the extreme limit of his credit with the creditor's desire for prompt settlement, a document called a "**Bill of Exchange**" has been brought into use.

A Bill of Exchange is a short written document, specimen forms of which will be found in Chap. XII, whereby a debtor promises to pay a certain sum of money at a stated future date to his creditor, or to any other person to whom his creditor may direct the money to be paid. A Bill of Exchange resembles a bank-note in so far that any *bonâ fide* holder of it can confer upon any other person the right to receive the amount of the bill at maturity by merely handing the bill to him; on the other hand, a bill differs from a bank-note in that it requires an "endorsement" (*i. e.* a signature on the back of the bill) by the transferor to complete, in many instances, the transferee's legal position.

The practical utility of a document of this nature will be obvious; in the first place, it is a written acknowledgment of indebtedness, coupled with a definite promise of payment, and for these useful characteristics alone, if for no others, a creditor usually prefers a Bill of Exchange in place of an ordinary book debt, and obtains the former as embodying the latter. Secondly, the creditor who has obtained a Bill of Exchange signed or "accepted" by his debtor, possesses a negotiable piece of paper which, if the reputation of the "acceptor" be good, is readily realizable. Banks and discount companies are always willing to "discount" (*i. e.* purchase for something less than their face value) Bills of Exchange bearing the names of well-known traders, and the possessor of an accepted bill of this high standing will have no difficulty in discounting it, and, having disposed of it, he can of course employ the proceeds in entering into fresh transactions.

It must, however, be stated that the *creditor's* signature must ordinarily appear on a Bill of Exchange as well as that of the *debtor*, although the latter is the person by whom the money is expressed to be payable; and, as a consequence of this fact, if the creditor parts with a bill accepted by his debtor, he is himself liable to pay the amount of it to any third party holding it, if the debtor fails to meet his obligation upon the presentation of the bill at maturity. The double liability which attaches to Bills of Exchange constitutes another cogent reason why good trade bills are favoured by Bankers as temporary investments.

When a debtor signs a Bill of Exchange in favour of his creditor he is said to "**accept**" it, and the creditor is said to "**draw**" upon him. As will be seen by a reference to the illustration in Chap. XII, the actual form of a Bill of Exchange is that of a letter addressed by the creditor to his debtor requesting payment of a certain sum at a fixed future date, to which request the debtor signifies his assent by writing his name across the letter itself.

From the point of view of an "acceptor" outstanding bill obligations are termed in book-keeping "**Bills Payable**," from that of a "drawer" they are described as "**Bills Receivable**." The deduction made by a banker when buying a Bill of Exchange from any one possessed of it is called "**Discount**," or "**Banker's Discount**," and its measure is usually the interest on the face value of the bill from the date of purchase to the date of maturity at an agreed rate per cent. per annum. Bills of Exchange are usually expressed as being payable at certain fixed periods of time, *e. g.* 60 days, 90 days, etc., from the date of their original date or date of acceptance, and this period of time is termed the "**Tenor**" of any particular bill. A custom of old standing permits the acceptor three additional days in which to meet the bill, immediately following the number of days actually mentioned in the bill, and this custom of allowing three "**Days of grace**" has been incorporated in English law, although it does not prevail universally in foreign countries; a bill therefore which is expressed as being payable "ninety days after date" is consequently actually payable ninety-three days after the date of its original execution. Where the tenor of a bill is expressed in months, calendar months are to be understood, and the three days of grace must be added in order to obtain the actual date of maturity.

EXERCISES.

EXERCISE 2A.

1. How does a trader keep his spare cash (*a*) in primitive countries, (*b*) in countries where a banking system has been established?
2. How does a trader make payments from the sums kept by his Banker for him on Current Account?
3. Explain the characteristics of, and the difference between, a "Current Account" and a "Deposit Account" with a Bank.
4. What is the difference between a sale of goods "for cash" and "upon credit"?
5. In the case of a sale of goods by a trader to another person "on credit," explain what various methods of payment or discharge of the debt are usually open to the debtor.
6. Distinguish between "Cash Discounts" and "Trade Discounts." How are they treated in practical book-keeping?

EXERCISE 2B.

1. Explain the terms "Returns Inwards" and "Returns Outwards."
2. What is the use of a Bill of Exchange (1) to the person who receives it in discharge of a debt, (2) to the person who "accepts" it to satisfy a debt?
3. What is the basis upon which Bankers calculate the amount of the "discount" when buying a Bill of Exchange?
4. What is meant by the term "days of grace"?
5. A trader wishes to raise a loan to employ in his business, discuss the questions of security and rates of interest in connection with such a loan from a general standpoint.
6. Where is it customary (1) to allow interest on Current Accounts kept with a Bank, (2) not to make such allowance? Explain the working of a trader's Banking Account under each system.

EXERCISE 2C.

1. What is meant by the term "Bank Rate"?
2. What is meant by the term "Banker's discount"?
3. What is meant by the "tenor" of a given Bill of Exchange?
4. Explain the terms "Bills Payable" and "Bills Receivable."
5. A Bill drawn on the 2nd of January, 1909, is expressed to be payable "sixty days after date"; at what date does it mature for payment?
6. State the reason why, under ordinary circumstances, a Trader prefers to receive prompt payment of the debts due to him, even if he is compelled to forego a small portion of his profit in order to obtain it.

EXERCISE 2D.

1. Explain the liability of the "drawer" upon a Bill of Exchange, received by him and discounted with his Bankers.
2. Explain the following expressions, an "Endorsement," a sale "for Cash" and a sale "upon Credit."
3. Explain briefly the nature and form of a Bill of Exchange.
4. How does a Bill of Exchange (*a*) resemble and (*b*) differ from a Bank-note?
5. Are "days of grace" universally allowed in the case of Bills of Exchange?
6. What are the characteristics of a "Deposit Account" with a Banker? Explain the advantages of such an account (*a*) from the depositor's and (*b*) from the Banker's point of view.

CHAPTER III

PRACTICAL BOOK-KEEPING

BOOKS OF ACCOUNT, STATISTICAL BOOKS, THE LEDGER

In Chapter I an endeavour was made to explain that, in theory, the record of the transactions of a business could be fully dealt with by means of Ledger entries. It will probably, however, be obvious to the student that, in actual practice, this method must be considerably modified in order that the same results may be attained with far greater economy of time and trouble.

At this point it is advisable to request the student to impress clearly upon his mind the fact that, in order that the books of any commercial concern may approach as nearly as possible to the maximum of usefulness and economy, three essentials must be attained, viz. (1) The utmost possible use of "original entries" (*i.e.* of entries made at the time of the occurrence of each transaction), (2) the prevention and localization of errors, (3) the suitable division of the various books for the convenience of the counting-house staff.

The books commonly employed by a trader in his business may be grouped into two classes, (1) "**Books of Account**" and (2) "**Statistical**" or "**Memorandum Books**."

The former class consists of those books which form integral parts of the system of book-keeping employed, and includes the Ledger, together with the books which are subsidiary to it. The Ledger is always the principal book in Double Entry book-keeping, and, as has been explained above, could be designed so as to contain within itself the whole permanent record of a trader's transactions; but, in view of the multiplicity of detail occurring in any large business undertaking, and the excessive amount of clerical labour which would be required to deal with each transaction as a separate matter, various labour-saving devices have of necessity been evolved by successive generations of accountants, with the result that, in modern practice, transactions are generally

grouped together in totals for the purpose of being recorded in their final resting-place on one side or the other of the Ledger.

By entering transactions in subsidiary books, or books of original entry, a considerable amount of grouping in totals, and the consequent avoidance of unnecessary detail in the Ledger is rendered possible. This procedure is the more desirable in large business undertakings, where, as almost invariably occurs, book-keeping by Double Entry is the only method permitted, inasmuch as the entering of every transaction in duplicate would, if no system of grouping were employed, involve an almost prohibitive amount of clerical labour.

The books of original entry commonly employed in practice necessarily differ in form to a great extent according to the nature of the business in which they are used, but such books usually group themselves into two classes, viz. "Cash Books" and "Journals."

A **Cash Book** is nothing more nor less than the Cash Account in the Ledger, removed from the latter for purposes of convenience, and bound up separately.

A **Journal** is a book employed to classify or sort out entries in a form convenient for their subsequent entry in the Ledger. According to the particular department of a business, or to the special type of transaction in or for which any particular Journal is to be used, so the name given to the book varies; a Journal kept solely to record sales is called the "Sales" Journal, or the Sales Day Book; a Journal for recording purchases is called a "Purchase Book" or Journal, and so forth.

A **Book of Account** may be defined briefly as any book which forms an integral part of the system of book-keeping employed in any particular business, and consequently includes both the Ledger and the books of original entry. On the other hand, "**Statistical**" or "**Memorandum**" books are those which are used in a business as accessories to the general system of book-keeping, and which serve to explain or to elaborate the necessarily limited amount of detailed information contained in the "Books of Account."

The books employed in a warehouse, providing detailed information as to the nature, qualities, quantities and values of the various pieces of merchandise comprising a trader's stock-in-trade are of a "statistical" nature, and serve to explain or amplify the entries appearing in a trader's

Sales and Purchase Accounts in his Ledger. Similarly, factory books kept to record the successive processes to which an article is subjected in the course of its manufacture, including records of the successive costs of these processes, are "statistical."

Statistical books obviously vary greatly, both as regards form and contents, according to the purpose for which they are used; and, being of an accessory nature, any attempt to outline their nature must be postponed until the student has thoroughly grasped the principles underlying the main system of accounting as employed in Double Entry book-keeping. Consequently, the remainder of this chapter and the chapters immediately following are devoted to an explanation of the Books of Account commonly used in modern commercial book-keeping, and to some description of their many uses.

THE LEDGER

The student has already been informed, in Chapter I, that the whole of a trader's book-keeping could, in theory, be contained within the limits of one book, viz. the Ledger, and, in the same chapter, an endeavour was made to illustrate this fact.

In a previous part of this present chapter the student has again been told that, in practice, the Ledger is the principal book in any system of Double Entry book-keeping, but that, in order to save time and labour, certain modifications and various subsidiary books are employed. The author has found that many students experience considerable difficulty owing to the fact that, at the outset, they are taught that, in theory, a Ledger can be made the sole repository of a trader's transactions, and then that, subsequently, they are informed that in practice this principle is not adhered to. In theoretical book-keeping entry in the Ledger immediately follows upon the happening of each transaction, but in practical book-keeping transactions are entered upon their occurrence, not directly in the Ledger, but in one or more books "of original entry," from whence their entry in the Ledger is effected subsequently. Some students, it has been found, are therefore apt to wonder why an explanation of Double Entry book-keeping could not commence with a description of the books of original entry, and then proceed to a description of the Ledger, which is the final destination of all transactions, and this perplexity on their part is not wholly unreasonable. The

Ledger accounts may be grouped in three classes, viz.—

Personal Accounts, recording the trader's financial transactions with his debtors and creditors, and furnishing a record of the sales or loans to or purchases or loans from these persons.

Real Accounts, recording the trader's dealings in property (other than debts due to him), and material objects such as Machinery and Plant, Buildings, Patents, etc.

Nominal Accounts, recording the trader's losses, expenses, profits and gains, or, in other words, his income and expenditure, and his net worth or (in the case of a business) the amount he has embarked in the business. Sub-divisions of the Profit and Loss Account, such as Discounts, Rent, Taxes, Salaries, Wages, Office Expenses, etc., offer examples of Nominal Account items.

In the case of Personal Accounts all the individual amounts or things *paid* or *sold* to any person by the trader are entered on the debit side of the Ledger account, the person dealt with being regarded as a *debtor* to the trader for each of these various sums, irrespective of the pre-existing relations or dealings between them.

Conversely, all sums, properties, or values, *received* by the trader from any person are entered on the credit side of the account kept by the trader for the party from whom they are received. The person transferring these values or things to the trader is regarded as being the trader's *creditor* for the value of each of them, again irrespective of the position, on striking a balance, between them.

Students sometimes experience considerable difficulty in appreciating the essential rule that each transaction *must* be considered by itself, quite apart from any transactions with any particular person which may have preceded it. For instance, J. Brown, a debtor to the trader whose books are being written up, may discharge his debt (say £100) by a payment in cash. To record the entry of this cash payment the Cash Account must perforce be debited, and J. Brown must be credited. In other words, J. Brown is shown as a creditor for this £100 in his Personal Account as kept by the trader, whereas the student is sometimes at a loss to understand how this can be, inasmuch as by the payment of this sum J. Brown, on striking a balance, becomes neither a debtor nor a

creditor of the trader, the debt between them being at an end. The correct way to regard the matter is that J. Brown, when buying goods from the trader, necessarily became his debtor for, say, £100; that on paying the same amount of money to the trader he becomes his creditor for £100, and that these two separate relationships to the trader cancel one another.

In the case of "Real" Accounts (sometimes called "**Property Accounts**") all property acquired is entered on the debit side of the Ledger account, the Property Account being, so to speak, personified and regarded as a debtor to the trader for the amount invested in that direction. Conversely, when property is parted with the Property Account is credited.

"Nominal" Accounts (sometimes called "**Impersonal Accounts**"), representing losses, are debited with all losses incurred, and may, for purposes of illustration, be regarded as if they were Personal Accounts, all sums sunk in the particular type of loss being regarded as amounts paid to the imaginary person. In the case of Nominal Accounts representing profits, the entries appear on the credit side of the account, and may be likened to receipts from imaginary persons. In point of fact, to be strictly literal, the trader would head the account "*My* Office Expenses Account," "*My* Sales Account," etc.

The **Capital Account**, upon which appears the excess of the trader's assets over his liabilities, may be regarded as a species of Personal Account kept by the business for the proprietor of it, and as showing at any time the amount which the latter has invested in the concern. In the case of limited companies this supposition becomes an actual fact.

A trader's transactions are first entered, as and when they occur, in the various books of "original entry." From the books of original entry, the necessary records in the Ledger are made, and this process is called "**Posting the Ledger**."

Postings in the Ledger are made, (1) in the case of "Cash Book" entries, on the opposite side to that upon which they appear in the Cash Book; and (2) in the case of entries from "Journals," on the same side as that which is indicated in the Journal. This difference of treatment arises out of the fact that the Cash Book is really a Ledger Account itself, and contains debit entries, which must, to complete the "double entry," be posted to

the credit of some other account or accounts in the Ledger, and *vice versa*, while the Journals, as previously explained, merely arrange the entries in a convenient form for subsequent posting, both on the debit and credit sides in the Ledger itself.

Regarding the Cash Book as a Ledger Account which has been bound up separately, it may be said that if the balances of all the accounts in a Ledger are extracted and classified under the respective sides (Dr. or Cr.) upon which they appear in the Ledger, the total Debit balances must agree with the total Credit balances. If this agreement fails to ensue it follows either (1) that the extraction of the balances has been done inaccurately, or (2) that the posting of the Ledger is incorrect. For instance, if an entry be posted in the Ledger twice on the credit side instead of once to the debit and once to the credit, the Trial Balance will disagree, and will show that such an error exists, its location being then merely a matter of search.

As has been already indicated, the Ledger is often subdivided into several parts, bound up separately, for the convenience of the counting-house work, or in order to reduce the various sub-Ledgers to a convenient size. In an undertaking of some importance, for example, the following subdivisions might well be found:—(1) **Sales Ledger**, for the record of all sales to customers; (2) **Bought Ledger**, for the record of all purchases from creditors; (3) **Impersonal or Nominal Ledger**, for the accommodation of the various "Asset," "Reserve," and other accounts of a like nature; (4) **Private Ledger**, for the record of the partners' "Capital" and "Drawing" Accounts, and the Profit and Loss Account. The "Sales" and "Bought" Ledgers, again, if the accounts were very numerous, would be divided alphabetically, thus: A—K, L—Z. Or, if more convenient, the subdivisions might be arranged upon geographical lines, thus: Town Sales Ledger, Country Sales Ledger, Foreign Sales Ledger, and so on.

EXERCISES.

3A.

1. What is a Ledger? Briefly discuss its position (1) in theoretical book-keeping, (2) in practical book-keeping.
2. What are (a) Personal Accounts, (b) Nominal Accounts, (c) Real Accounts?
3. What is a Cash Book?
4. What is the object of a Journal?

5. Why are "Books of Original Entry" employed in practical book-keeping?
6. What is meant by "Posting the Ledger"?
7. What is the difference between a "Book of Account" and a "Statistical Book"?
8. What is the cardinal principle of Double Entry book-keeping?

3b.

1. What is a trader's "Capital Account," and what does its balance represent?

2. Classify the following Ledger accounts as among (a) Real, (b) Personal, and (c) Nominal Accounts, viz. Capital Account, Machinery Account, Telegrams and Postages Account, J. Wilson & Co.'s Account, Discounts Received Account, Profit and Loss Account, Wages Account, R. Brown (Loan) Account, Buildings Account, Bad Debts Account, Office Expenses Account.

3. In which Ledger or other accounts, and upon which side of such accounts, would you expect to find the following items?—

- (a) £1,000 paid for a plot of land.
- (b) £50 received as commission for effecting a sale of another person's property.
- (c) £70 paid for wages.
- (d) £100 paid to-day to R. Jones in full settlement of an account for £104 12s. 6d. due to him two months hence.
- (e) £200 received from J. Brown in part repayment of money lent to him.

4. What are the essentials to be attained in order that the books of a commercial concern may approach as nearly as possible to the maximum of usefulness and economy?

5. Explain the term "Books of Original Entry"; what are these books?

6. Give a specimen ruling of a Ledger account (Personal), and enter therein three entries on the debit and three on the credit side, and bring down the balance.

7. Open the necessary Ledger (or other) accounts from the following items: On January 1, 1909, John Jones had cash at the Bank, £150; freehold shop value, £1,000; a horse and cart value £110; debts owing to him, £560—viz., R. Brown, £400; J. Robinson, £160; whilst he owed £670 (viz. J. Fitter, £420; R. Roberts, £250); he also had stock of goods on hand valued at £312.

3c.

Menzies Bros. of London carry on a general agency and mercantile business; Brown, Knox & Co. of Gibraltar are a firm doing business with them. From the following particulars prepare the account of Brown, Knox & Co., as it appears in Menzies Bros.' Ledger, bringing down the balance at the 31st January.

Menzies Bros.' transactions:—

1909.

- | | | |
|------|----|--------------------------------------------------------|
| Jan. | 1. | Balance owing by Brown, Knox & Co., £462 5s. 3d. |
| | 2. | Sold Brown, Knox & Co., goods on credit, £214 9s. 5d. |
| | 3. | Paid R. Merton on behalf of Brown, Knox & Co., £40. |
| | 4. | Sold Brown, Knox & Co., goods on credit, £212 10s. 9d. |

- 1909.
- ✓ Jan. 4. Purchased for cash on account of Brown, Knox & Co., 3 sewing machines at £7 each, and shipped these to Brown, Knox & Co. at Gibraltar, paying freight, £4. Charge a special commission of 5s. on this transaction.
- „ 10. Received from Brown, Knox & Co. goods returned as unsuitable, invoiced at £12 9s. 6d., allowed them full invoice price therefor.
- „ 11. Received from Brown, Knox & Co. cheque on the Eastern Counties Bank, Ltd., £105 10s. 9d. for credit of their account.
- „ 13. Brown, Knox & Co. advise that they have remitted through the Gibraltar office of the London and Peninsular Bank, Ltd., £300 to be placed to the credit of their account, and enclose a sight draft for £500 drawn on Baring & Co. of London for their credit. This draft was duly honoured on presentation.
- „ 14. Received from the London office of the London and Peninsular Bank, Ltd., the £300 referred to in the preceding paragraph.
- „ 19. Sold Brown, Knox & Co. goods on credit, £39 2s. 4d.
- „ 21. Brown, Knox & Co. forwarded a £200 Japanese Government 4½-per-cent. Bond for sale on their account; sold the same and received cheque from the stockbrokers, £195 10s.
- „ 23. Brown, Knox & Co. requested Menzies & Co. to purchase on their account £200 London County Consolidated 3½-per-cent. Stock; purchased the same at par and paid the stockbroker £200 therefor.
- „ 25. Paid on behalf of Brown, Knox & Co. the following, viz.—
 To Mrs. M. Jones, £250.
 To Owen Jones, £125.
 To Griffith Jones, £125.
- Charge Brown, Knox & Co. a special commission of 10s. 6d. on the above payments to cover clerk's travelling expenses and time occupied in making inquiries as to the foregoing payments.
- „ 29. Received from Albert Heather £15 in cash, to be placed to the credit of Brown, Knox & Co.

3d.

Open Ledger accounts with the following balances under date January 1st, 1909. Stock of Timber, £500; Cash at Bank, £600; Bill Receivable in hand, O. Child, due January 3rd, £100; Debtor, B. Nugent, £32 10s. R. Jones' Capital Account, £1,232 10s. Post by double entry the following transactions and prepare a Trial Balance upon their completion.

1909.

- Jan. 1. Bought a cargo of timber from V. Oscarsson, gross, £385, less 10 per cent. trade discount. Paid V. Oscarsson by cheque £340 in settlement of account.

1909.

- Jan. 2. Sold to Smith Bros., on credit, timber, £262 15s.
 Drew on Smith Bros. at 3 months for £200 on
 account of the above sale.
- „ 3. Discounted Smith Bros.' draft with the Bank, being
 charged Bankers' discount, £2.
- „ 3. Sold timber for cash, £200, paid the same to the Bank.
- „ 3. O. Child's bill, £100, due to-day, paid through the
 Bank.
- „ 4. Paid by cheque for office furniture purchased, £25.
- „ 4. Drew from Bank £4 10s. in cash, and employed the
 same in paying wages for the week.
- „ 5. Bought for cash a cargo of timber ex. s.s. *Léonie* for
 £325 net.
- „ 5. Paid by cheque electric light bill, £4 6s.
- „ 6. Received from B. Nugent cheque for £32 and banked
 same; allowed him discount, 10s.

Answers.—3B (7). Capital, £1,462.

3C. Debit Balance of Account, Jan. 31st, £565 13s

3D. Trial Balance Totals, £1,238 10s.

CHAPTER IV

THE CASH BOOK

WHEN the principles of Double Entry book-keeping were first applied to the methods employed in recording commercial transactions, a Ledger account was kept for the purpose of recording all receipts and payments of Cash in just the same manner as separate Ledger accounts were maintained for all other types of commercial property: in these early days no other record of Cash was made. It soon became apparent that the Cash Account greatly exceeded in bulk every other Ledger account, and, of necessity, the custom consequently arose of binding the account up as a separate book. The **Cash Book** having thus come into existence as a separate book, was henceforth used as the *sole* book in which the original entries of all cash receipts and payments were recorded. Its nature, however, as an integral part of the Ledger remained unchanged, and the items appearing in it continued to form the separate halves of twofold entries, the remaining halves of the "double entries" being posted in the relative Ledger accounts upon their respective opposite sides; in other words, every entry appearing on the Debit side of the Cash Book had its corresponding Credit entry in some appropriate Ledger account, and *vice versa*.

In modern practice cash entries are first made in the Cash Book from the memoranda or counterfoils in the trader's possession, upon the debit or credit side according to their nature (receipts or payments), and the corresponding entries (to credit or debit) in the necessary — Ledger accounts are made as soon thereafter as is conveniently possible.

The balance of the Cash Book, at any date, shows the amount of money which should be in the trader's possession.

A specimen ruling of an elementary Cash Book, in its simplest form, is appended. It will be noticed that the form employed is merely that of an ordinary Ledger account—

Dr. CASH BOOK (Simple Form) Cr.

Date.	Particulars.	Leger Folio.				Date.	Particulars.	Leger Folio.			
			£	s.	d.				£	s.	d.

The above form is designed to contain the record of receipts and payments in money, *i.e.* actual coin; but if, as is now usual, and as has been indicated in Chapter II, the trader keeps none of his money in his own possession, but pays all his receipts into his Bank and effects all his payments by means of cheques, the form of Cash Book given above will serve equally well to record the trader's Banking transactions. All sums paid to the Bank in such a case are entered on the debit side, and all cheques drawn appear on the credit side; the balance of the Cash Book will show, at any date, the amount held by the Banker on behalf of the trader, *i.e.* his "**Bank Balance**."

A specimen form of Cash Book, utilized to record the

CASH BOOK

Dr. (Recording Bank Transactions only). Cr.

Date	Particulars.	Ledger Folio.	£	s.	d.	Date.	Particulars.	Ledger Folio.	£	s.	d.
1908.						1908.					
Oct. 1	To Balance at Bank		100	0	0	Oct. 4	By <i>Wilson, Bros.</i> — Cheque on account.....	16	25	0	0
" 2	" <i>W. Brown</i> — Payment on account.....	24	30	0	0	" 5	" <i>Plant and Machinery Account</i> — Cost of Gas Engine	21	50	0	0
" 8	" <i>R. Jones</i> — In settle- ment of account.....	36	20	0	0	" 5	" Balance car- ried down...	✓	75	0	0
			£	150	0				£	150	0
1908.											
Oct. 5	To Balance brought down.....	✓	75	0	0						

trader's Bank transactions, is set out above. The typical transactions entered in the form will explain themselves.

The particulars contained in the columns of this Cash Book are those which will ultimately appear in the trader's Bank Pass Book, and it will be obvious to the student that there will therefore be no need to keep a Bank Account in the Ledger.

In practical experience, certain businesses will not infrequently be met with in which the owner of the undertaking keeps the greater part of his money with his Banker, but is nevertheless obliged to retain some ready cash in hand at his office; for instance, in undertakings where the receipts from debtors are partly in the form of cheques and partly in coin, and in cases where occasional payments in cash are required.

To meet the needs of such businesses a composite form of Cash Book is necessarily employed, containing two money columns on each side, designed to record receipts and payments both in cash and through the Banker. Apart from the necessary difference in form there is no change whatever in the principle, or the uses, of this style of Cash Book as compared with the elementary form given above.

In this kind of Cash Book all receipts in coin or notes are entered on the debit side in the ordinary way, the amount being placed in the "Cash" money column. All payments made in cash are placed on the credit side in the "Cash" column, with their appropriate details, and payments made by cheque appear similarly in the "Bank" credit money column. Cheques received by the trader, and immediately banked by him, are entered in the Cash Book in the debit "Bank" column.

Where the trader himself pays into his Bank any sum from his office cash-box (it frequently occurs that his receipts in coin are in excess of his immediate cash requirements for payments), the amount so taken from office cash is treated as a payment made from "Cash" on the one hand and as a receipt by the "Bank" on the other hand; the sum consequently appears as a credit entry in the "Cash" column and as a debit entry, for the same amount, in the "Bank" column.

Conversely, when the trader draws cash from his Bank for the purposes of replenishing his Office Cash Balance, the matter is recorded under the guise of a payment made out of the Bank Balance and as a receipt by "Office

1908.

- Oct. 1. Balance of Office Cash in hand, £60; Bank Balance, £120.
- „ 2. Received in cash from J. Jones, £20, and from W. Brown £10 5s.
Received cheque from Smith & Co., £60, and banked the same.
- „ 3. Paid for wages from Office Cash, £48.
Paid from Office Cash to Bank, £35.
Drew cheque in favour of Wilson Bros. for £94 15s.
- „ 4. Drew from Bank for Office Cash, £10.

The Cash Book is balanced off as on October 4, and the balances are then carried down.

In many businesses it is customary for the trader both to allow and receive small “Discounts” (known as “Cash Discounts”), when his debtors discharge their obligations to him or he himself pays his own creditors. It is frequently found in practice that, in many businesses, almost every such receipt or payment of money is accompanied by a “Discount” allowance, and, in order to avoid the posting of an unnecessary number of separate discount entries, an economical practice of passing these discount entries into the Ledger simultaneously with the cash entries out of which they arise has become general. If John Jones pays the trader £49 in full settlement of a debt of £50 due by him, it is obvious that the cash payment (£49) and the discount (£1) must in one way or another be placed to the credit of John Jones in the trader's Ledger. If the £49 only were to be posted to the credit of John Jones from the Cash Book, a separate double entry, debiting “Discount” and crediting John Jones, would be necessary, and similar entries would be needed for every one of the many corresponding discount allowances.

The custom has consequently arisen of noting in the Cash Book all such discounts allowed or received, and of posting to the appropriate Personal Account in the Ledger both the cash passing and the discount allowed in one sum. Under this method the discount is entered in the Personal Account in the Ledger in company with the cash payment, and the relation between the two items is readily seen. At the end of any particular period the total discounts so allowed and received are added up in the Cash Book and posted in one total

to the debit or credit of the "Discount Account" in the Ledger, thus completing the double entry. The economy of time and labour thus effected will be obvious to the student.

An example may serve to make the principle thus described more readily understood. Taking again the transaction with J. Jones given above, the entries which, under the system of noting discounts in the Cash Book, take place would be as follows—

1. The receipt of £49 is *debited* in the Cash Book.
2. A note is made in the Cash Book (in the column provided for that purpose) that £1 discount has been allowed to J. Jones.
3. £50 ("Cash and Discount") is *credited* to J. Jones's Personal Account in the Ledger.
4. At a subsequent date all the discounts allowed, *including the £1* on this transaction, are *debited* to the "Discount Account" in the Ledger.

In this way £50 is, under one guise or another, posted on each side of the Ledger (remembering, of course, that the Cash Book is a Ledger account), and the double entry is thus complete.

A similar method is adopted in dealing with the discount received by the trader on the cash payments made by him. In this instance the total debit to the trader's creditor both for cash paid to him and discount allowed by him on the payment appears in the creditor's personal Ledger account; the credit entry in the Cash Book for the cash paid, plus the ultimate credit entry in the Discount Account for the total discounts received, completes the necessary double entry.

A specimen form of Cash Book, including a memorandum column for noting discounts on each side, is appended. The "memorandum" nature of the discount columns must be clearly borne in mind; the debit column represents discounts *allowed*, and its total is destined to be posted ultimately to the *debit* of the "Discount Account"; and, in the case of discounts *received*, the total appearing in the credit discount column is to be posted to the *credit* of the "Discount Account." If the discount columns were to form part of the Cash Book in the same manner that the "Cash" and "Bank" columns form part of it, one would naturally expect to find the contra entries for their totals appearing on the *opposite* sides of the Ledger,

but inasmuch as they are merely "memorandum" columns, the general rule of posting from the debit side of the Cash Book to the credit side of the Ledger does not apply to these totals. The individual items appearing in the discount columns are posted to the appropriate Personal Accounts in the Ledger (in company with the cash passing) upon the opposite sides to those upon which they appear in the Cash Book, and at the end of a given period the total of these allowances is posted in the Ledger in the Discount Account upon the same side as that upon which they appear in the Cash Book.

The following transactions are entered, by way of illustration, in the appended specimen three-column Cash Book—

1908.

- Oct. 1. Cash Balance, £60; Bank Balance, £105.
- „ 2. Received from J. Jones £40 in cash and allowed him discount, £2.
- „ 3. Paid £70 to the Bank from Office Cash.
- „ 4. Drew a cheque in favour of W. Brown for £62; discount received, £3.
- „ 5. Received a cheque from J. Jones, £30; allowed him discount, £3, and banked the cheque.

The Cash Book is balanced as on October 5, when the balances are brought down; at this date the £5 and £3, representing the debit and credit totals of the "Discount" columns, are then posted respectively to the debit and credit of the "Discount Account" in the Ledger. Occasionally, in practice, the *Balance* only of the discount columns (*i.e.* the difference between their totals) is posted, but it will, in most cases, be found preferable to post the *totals* of each column in the Discount Account.

Other specimen forms of Cash Books will be given in due course to illustrate the various uses to which extra columns in the Cash Book can be put. In common with all the other books employed in modern commercial undertakings, one of the salient points of a good Cash Book is to facilitate the balancing of the books and to economise labour.

The employee to whom, in a mercantile office, the work of keeping the Cash Book, and of supervising the cash transactions is entrusted is generally styled the "Cashier." His duties comprise the receipt of all sums of money

daily. It will usually be advantageous also to keep a small memorandum book showing the details composing the daily balancing of cash for future reference in case of need. It is also the cashier's duty to obtain from the Bankers the Bank Pass Book at regular intervals, and to prepare statements showing that the balance shown by the Pass Book tallies with the balance as shown by the "Bank" columns of the Cash Book kept by him. It is always desirable that the Cashier, who handles the cash received from customers and others, should have no part in the writing up of the Ledgers wherein the customers' accounts are recorded, and that, as far as he is concerned, the Ledgers and the posting of them should be a matter in which he has neither part nor control.

The Cashier is also responsible for the correctness of all the discounts allowed to customers upon payment of their accounts, and he is also charged with seeing that his employers themselves obtain the full benefit of all the customary discount allowances obtainable from creditors when the amounts owing to the latter are discharged.

As indicated above one of the duties of the cashier consists in the periodical "reconciliation" of the Cash Book with the Bank Pass Book. The amount shown by the Cash Book as remaining in the hands of the Bank at any particular time rarely tallies exactly with the balance shown by the Banker's Pass Book at the same date. This apparent discrepancy arises from the fact that (a) short periods of time must necessarily elapse between the drawing of a cheque by a firm and its subsequent payment by the Banker upon whom it is drawn, and (b) on the other hand from the similar lapse of time which must perforce take place between the drawing and dispatch of a cheque by a customer to the firm and the date upon which such cheque is eventually credited by the Banker to whom it is entrusted for collection. In order to explain this divergence it is necessary to construct a statement, known as a "**Reconciliation Statement**," wherein the two differing balances and the outstanding items which cause them to disagree are clearly set forth. A specimen example is appended showing how this "reconciliation" is arrived at—

Example.—On December 31, 1908, the Cash Book of Messrs. Brown, Jones & Co. showed that £1,152 16s. 5d. should be in the hands of their Bankers; the latter's Pass Book, however, showed a

balance of only £624 12s. 8d., the difference being due to the following items—

1. A cheque drawn by Brown, Jones & Co. on December 29, 1908, for £7 6s. 5d. had not yet been presented to the Bankers for payment (although it had of course been entered, when drawn, upon the credit side of the firm's Cash Book).
2. A cheque received by Brown, Jones & Co. on December 29, 1908, for £535 10s. 2d., drawn upon Aberdeen, had not yet been "collected" by the Bankers, and consequently had not yet been placed by the latter to the credit of their customers' account with them.

These differences are expressed in the following statement—

BANK RECONCILIATION STATEMENT, December 31, 1908.	
Balance as per Bank Pass Book	£624 12 8
<i>Deduct</i> cheque drawn, but not yet presented to Bankers for payment	7 6 5
	<hr/> 617 6 3
<i>Add</i> cheque on Aberdeen paid to Bankers on December 29, 1908, but not yet collected by them	535 10 2
Balance as per Office Cash Book	<hr/> £1,152 16 5

When balancing his Cash Book (weekly or monthly as the case may be) it is usual for the Cashier to write up, in red ink, in the Cash Book itself, for future reference, the Reconciliation Statement prepared by him when agreeing the Bank columns in his Cash Book with the Bank Pass Book.

PETTY CASH BOOK

Even in businesses where all the cash receipts are paid immediately into the Bank and, where possible, all payments are made by cheque, it is usually found necessary to keep small sums of ready money in the office for the purpose of meeting those small disbursements which are practically inseparable from every business, *e.g.* postages, telegrams and office sundries. The sum so kept in hand is usually termed the **Petty Cash**, and, in practice, it may be found entrusted either to the Cashier or to a separate **Petty Cashier**, according to the amount of the work involved, to the size of the undertaking, or to the organization of the clerical staff.

The book in which the various sums drawn from the Bank and handed over to the Petty Cashier are recorded, and in which also appears the detailed record of his disbursements, is termed the **Petty Cash Book**. This

book should be specially ruled so as to show clearly the total expenditure to date upon any particular class of business expense, in order that extravagance in any direction may be readily revealed, and it must, of course, be designed so as to show the balance which, at any particular date, should exist in coin or notes in the hands of the Petty Cashier.

The expenditure made by a Petty Cashier is usually comprised almost entirely of payments for small expenses, but cases arise occasionally when small sums are expended by him, either for assets purchased or for the debit of Personal Accounts in the Ledger. The payments made by a Petty Cashier, being numerous and of a constantly recurring nature, are more convenient to deal with when collected into periodical totals, for subsequent posting to the debit of the Expense Accounts in the Ledger, by means of analysis columns provided in the Petty Cash Book; while the occasional payments for the debit of Personal or Real Ledger Accounts must usually be posted direct to the Ledger separately and in detail.

Upon the principles thus enumerated the subjoined form of the Petty Cash Book is based.

This Petty Cash Book, as far as the debit and credit total columns are concerned (Columns T1 and T2), forms an integral part of the system of accounts just in the same way that an ordinary Cash Book does. It ranks, therefore, of course, as a book of original entry, and the balance of Petty Cash on hand at any time requires inclusion in the Trial Balance in order that the latter may "agree," just as was described to be the case in reference to the balance of the Cash Book (p. 31). All the sums received by the Petty Cashier from the Chief Cashier are entered directly in Column T1 (Debit Column), while all payments made by him are recorded in Column T2 (Total Credit Column); the difference between these two columns at any time, therefore, represents the balance of Petty Cash in hand, and this figure should, of course, tally with the Petty Cashier's actual holding of notes and coin.

The Analysis Columns A to H are designed for the repetition, and analysis, of the expenditure falling under the various headings as set out at the head of these columns. The posting to the Impersonal (Expenses) Ledger Account of all petty cash expenditure made is effected by posting the totals shown at the foot of these various columns at

49

Dr.		Cr.														
Date.	Details.	£ s. d.	Date.	Details.	Total.	Telegrams.	Postages.	Stationery.	Cleaning.	Fuel.	Gas and Electric Lights.	Telephone Charges.	Grunties.	Ac. count.	Amount.	Pollo.
1909.			1909.													
Mar. 1	Cheque	50 0 0	Mar. 1	Postage, ...	0 3 6		0 3 6									
				3 Brown & Co.	1 4 9			1 4 0								
				" 6 House-keeper, cleaning, and sun-dries	2 9 4				2 6 4				0 3 0			
				" 8 H. Rose (extra dis-count paid him)	0 10 9											
				" 18 House-keeper ...	6 0 2				5 4 2	0 12 0			0 4 0			
				" 22 Telegrams ...	0 5 6	0 5 6	1 10 0									
				" 23 Postage ...	1 10 0											
				" 29 Gas Co. to 31/12/08...	4 2 5						4 2 5					
				" 30 Trunk calls for month	0 7 9							0 7 9				
				" 30 Sunday stationery	0 1 4			0 1 4								
Forward £		50 0 0	Forward .£		16 15 6	£0 5 6	£1 13 6	£1 6 1	£7 10 6	£0 12 0	£4 2 5	£0 7 9	£0 7 0		£0 10 9	

At the end of the month : (1) £16 15s. 6d. would be drawn from Bank and paid into the Petty Cash, thus raising the Petty Cashier's balance to the original £60. (2) The totals of Columns A to H would be debited to their relative Impersonal Accounts in the Ledger. (3) The separate amount in Column I would be debited to H. Rose's Personal Ledger Account—a journal entry having previously been passed "Discount A/c Dr. to H. Rose for discount over-deducted." (4) The analysis columns would be ruled off, a balance of £50 brought down in the debit cash column, and a fresh start made.

the end of any given period (usually monthly); by thus effecting a classification of expenditure simultaneously with the actual disbursement of the money, and by posting the *totals only* of the various classes of expenditure, the credits (for expenses paid) in the Petty Cash Book are offset by a moderate number of "total" debits subsequently made in the Ledger, and thus the necessary double entry is effected with the minimum expenditure of labour. This principle of summarizing transactions in order to post them to the Ledger, either in one total or in as few totals as possible, is not a new one to the student; it will be remembered that similar procedure is made use of in the case of the "discount" columns of the Cash Book: it is also used in the case of "Analyzed" Purchases Books (see Chapter V) and in other places, although the exact form under which the principle appears must necessarily differ, according to the needs of the varying books in which it is adopted.

There remains still to be explained the use of the "Ledger" columns on the extreme right-hand side of the Petty Cash Book as given above.

These columns are designed for the accommodation of any amounts paid away out of Petty Cash for the ultimate debit either of "Personal" or "Real" accounts in the trader's Ledger, *i.e.* for payments which cannot be allocated to any "expenses account," or collocated as coming under any of the classes set out in columns A to H; items of this nature consequently require posting *individually* to some special "Asset" or other account in the trader's Ledger. A not infrequent example of a payment of this type would be the purchase, out of Petty Cash, of such small tools or parts of machinery as might be immediately required in the workshop—sums expended in this manner would be inserted, not in any of the "Expenses" columns, but in the "Ledger" column, with the designation "Tools Account" or "Machinery Account," as the case might be, and the subsequent posting would be effected direct from the "Ledger" column in the Petty Cash Book to the debit of the "Tools" or "Machinery" Account in the Ledger.

The plan of having a "Ledger" column in the Petty Cash Book for the repetition of those items which need to be posted individually direct to the Ledger, is of considerable assistance to the Petty Cashier, although at first he may be inclined to regard the unavoidable repetition, before posting, as savouring of extra and unnecessary

labour; the duplication, however, on the credit side of the book in one column or another of *every* payment made enables a useful check to be effected as to the correctness of the additions of Columns A to H. Since the record of every payment as and when made is repeated in the analysis columns, the latter, if added across, should, of course, equal the total of the payments appearing in the Credit Total Column (T2). It will be obvious that it is essential that the additions of the expenses columns A to H should be correctly made, as otherwise the Trial Balance would be rendered incapable of agreement.

The best method of conducting and safeguarding the keeping of the Petty Cash is that known as the "**Imprest**" **System**. Under this system a round sum, estimated to be sufficient to provide for all petty expenditure for a given period (*e.g.* a month) is placed in the Petty Cashier's hands at the outset, and, at the end of the specified period, the exact sum he has spent during that period is repaid to him, *i.e.* the sum necessary to restore the balance he has remaining in hand to its original round sum. For example, if a £50 balance were agreed upon as sufficient to cover the anticipated expenditure for a month, this sum would be drawn from the Bank upon the inception of the scheme and placed in the Petty Cashier's hands, the necessary recording entries being passed through the General Cash Book (on the credit side) and the Petty Cash Book (on the debit side). If at the end of the first month the Petty Cashier had spent £34 5s. 6d., as set forth in detail in the "analysis" or "expense" columns of his Petty Cash Book, a cheque for this sum, drawn on the trader's banking account, would be handed to him. At the same time the totals of the analysis columns would be ruled off and posted to the debit of their respective Impersonal Accounts in the Trader's Ledger, and, with the bringing down of a balance of £50 at the commencement of the ensuing month, a fresh start in all respects would be made. The same process would be repeated at the close of each month. If the original estimate of £50 subsequently proved to be too low, or too high, for the requirements of the business, the limit would, of course, be raised or reduced as was deemed expedient at any time, further round sums being contributed to Petty Cash from the Bank account, or payments being made from the former to the latter to meet the needs of the case.

EXERCISES.

4A.

From the following particulars compile the Cash Book of J. Brown-
ing (ruling the necessary form), and bring down the closing balance
of Cash on hand as on February 10th, 1909.

1909.		£	s.	d.
Feb. 1.	Cash in hand	84	6	1
" 2.	Received from Wilson & Co.	17	2	4
" 3.	Paid to Harris & Sons, Ltd.	6	0	9
" 4.	Paid for Electric Light to Dec. 31	2	13	6
" 5.	Paid for Goods bought for Cash	19	10	10
" 6.	Received from Wilson & Co.	26	4	9
" 8.	Received for old materials sold	3	17	4
" 9.	Lent V. Smith	5	0	0
" 10.	Owen Roberts repaid the amount lent to him on Dec. 1st last (principal)	10	0	0
	With Interest to date	0	4	0

4B.

From the following particulars compile the Cash Book of Hall,
Warren & Co., ruling the necessary form so as to include "Cash,"
"Bank," and "Discount" columns, and bring down the balances
on March 14th, 1909.

1909.		£	s.	d.
March 1.	Cash in Hand	82	4	9
" 1.	Balance at the Bank	362	0	5
" 2.	Paid Salaries for the month from Office Cash	22	3	9
" 4.	Paid to Spooner & Co., Ltd., by cheque	260	3	9
	Being allowed discount	1	6	0
" 5.	Received from Reid & Co. on account (by cheque paid direct to Bank- ers)	400	0	0
	Allowed them discount	8	0	0
" 6.	Bought goods for cash (paid from Office Cash)	5	4	9
" 7.	Paid from Office Cash into Bank	50	0	0
" 8.	Paid Sharp Bros. by cheque	64	2	9
	Being allowed discount	3	2	0
" 9.	Received from Harris Bros. in coin and notes	25	0	0
" 11.	Paid from Office Cash into Bank	20	0	0
" 12.	Received from Chase Bros. cheque and paid same to Bank	61	9	3
" 13.	Chase Bros.' cheque returned by Bankers, the same having been dishonoured	61	9	3
" 14.	Received from Chase Bros. in coin and notes in exchange for their dishonoured cheque	61	9	3

4c.

Rule a form of Petty Cash Book containing analysis columns for the following kinds of Petty Cash Expenditure, viz. Stationery, Postages, Telegrams, Carriage, Travelling Expenses, Cleaning, Lighting, Firing, together with a column for such payments as may require to be posted direct to the Ledger, and enter therein the following transactions, bringing down the balance on hand at the conclusion and showing how the necessary double entry is effected throughout.

1909.		£	s.	d.
March 1.	Received cheque from the chief cashier for starting balance, and cashed same.	50	0	0
„ 1.	Paid for Postages	0	3	6
„ 1.	„ Telegram to Liverpool	0	1	4
„ 2.	„ Electric Light Bill to December 31 last	2	6	9
„ 2.	„ Housekeeper's Book for Cleaning	0	7	6
„ 2.	„ Housekeeper's Book for Fires	0	3	6
„ 3.	„ Fares to Euston	0	4	9
„ 3.	„ Carriage of samples sent to Brown & Co.	0	13	4
„ 4.	„ Postages for March 2, 3, and 4	0	10	5
„ 4.	„ Telegram to Paris	0	8	4
„ 4.	„ New Copying Press (Debit Office Furniture Account)	2	10	9
„ 5.	„ Postages	0	1	3
„ 6.	„ Bus Fares to Charing Cross	0	0	4
„ 8.	„ Fares, 6th and 8th	0	4	11
„ 9.	„ Telegram to Aberdeen	0	3	4
„ 9.	„ Housekeeper's Book for Cleaning	0	8	9
„ 9.	„ Housekeeper's Book for Fires	0	3	9
„ 10.	„ New Typewriter (Debit Office Furniture Account)	12	10	0
„ 10.	„ Typewriting Paper	0	8	10
„ 11.	„ Postages, 9th and 10th	0	4	6
„ 12.	„ „ 11th and 12th	0	3	5
„ 12.	„ Fares to High Barnet	0	4	3

4d.

1. What is a Cash Book? Compare its characteristics with those of a Ledger account.

2. Explain (a) the form and (b) the special utilities of each of the following forms of Cash Book—

- (1) The Single Column Cash Book.
- (2) The Double Column Cash Book.
- (3) The Three Column Cash Book.

3. Explain the practical working of a Cash Book from the standpoint of the employee to whom, in a mercantile office, it is entrusted. Discuss the employee's duties and responsibilities.

4. From the following particulars compile a Statement showing

how the difference between the Cash Book balance and the balance shown in the Bank Pass Book is reconciled—

	£	s.	d.
Pass Book balance, December 31, 1909 . . .	1,104	16	2
Cheques drawn prior to December 31, 1909, but not presented until after that date—			
A. B.	21	9	4
C. D.	800	0	0
E. F.	1	2	5
Country cheques paid into the Bank on Decem- ber 29, 1909, not collected until January 1, 1910	16	3	11
Cash Book balance, December 31, 1909 . . .	298	8	4

5. Explain the working of a Petty Cash Book of "analysis" form in a case where the Imprest System is adopted. Discuss the advantages of the latter system.

- Answers.**—4A. Balance of Cash in hand, February 10th, £108 9s. 5d.
 4B. Balances, March 14th, 1909 :—Discount (Dr.),
 £8; Cr., £4 8s.; Cash, £71 5s. 6d.; Bank,
 £507 13s. 11d.
 4C. Balance in hand, March 12th, £27 16s. 6d.

CHAPTER V

THE PURCHASES BOOK

(INVOICE BOOK OR BOUGHT BOOK)

THE purchases of goods made by a trader are usually found to constitute a considerable part of his everyday transactions, and, in view of the fact that, in the majority of businesses, successive purchases of goods resemble each other in almost every respect, special methods of recording them concisely and economically have become general.

By employing a system of grouping purchases of a like nature, as far as is possible, the trader is usually able to diminish the labour involved in their record in his books.

The entry necessary to be made in order to record a purchase of goods by the trader consists of a debit to the "Purchases" Account in the Ledger, coupled with a credit to the Personal Account of the seller, or a credit in the Cash Account, dependent upon whether the transaction took place "on credit" or "for cash." If every such purchase were to be made the subject of a separate double entry, the debits to the "Purchases Account" would necessarily be as numerous as the transactions, and any method by which the labour involved in their record can be reduced is, therefore, obviously to be approved.

In an ordinary business it is the purchases "on credit" which are by far the most numerous, and these transactions involve debit entries in the "Purchases Account" and credit entries in the several Personal Accounts of the various persons from whom the goods have been bought.

In order to avoid the tedious repetition of every such credit purchase in detail in the Purchases Account, a "**Purchases Book**" or "**Purchases Journal**" is employed; in this book all the purchases on credit are recorded upon their occurrence, and from it the necessary entries are

made in the Ledger upon the credit side of the Personal Accounts kept by the trader to record his transactions with the parties by whom the goods were supplied. At the end of any given period (usually monthly) this book is added up and the total of the purchases for the period is posted to the debit of the "Purchases" Account in the Ledger, and thus the necessary double entry is completed.

The effect of this procedure is that numerous successive credit entries (in the Personal Accounts) are compensated for, or completed by, one debit entry for their total (in the "Purchases" Account). This principle, of offsetting numerous entries upon one side of the Ledger by one total entry upon the other side, will be found to be extensively employed in modern book-keeping, and obviously saves much tedious and unnecessary labour.

A specimen of a "Purchases Book," in its simplest form, is appended, the transactions in which will be self-explanatory.

PURCHASES BOOK (Simple Form)

Column A	Column B	Column C	Column D	Column E
Date.	Details.	Ledger Folio.	£ s. d.	£ s. d.
1908.				
Dec. 1	<i>Brown & Co.—</i>			
	Suite (Modern 'Sheraton).....		85 0 0	
	Chairs, 4 at £1 10s.....		6 0 0	
			91 0 0	
	Less 5 per cent. Trade Discount		4 11 0	
		86		86 9 0
" 3	<i>Euston Manufacturing Company—</i>			
	Mahogany sideboard (Type 86, Quality B).....		65 0 0	
	Less 10 per cent. Trade Discount		6 10 0	
		21		58 10 0
" 5	<i>Wilson Bros.—</i>			
	Mirror, 346XY.....	12		15 0 0
	Carried forward to next page*....			£159 19 0

* At a later date the total purchases for the period are posted to the debit of the "Purchases Account" in the Ledger.

Column A of the above form is designed to contain the date upon which a purchase takes place, while Column B contains the particulars of the goods acquired and the

name of the seller, the different parcels acquired at the same time from the same person being ranged immediately underneath one another; the cost of each parcel is entered in Column D, and the total cost of the complete purchase made from the seller is extended in Column E. The total purchases are added up in the Purchases Book and carried forward from page to page until, at any desired point of time (usually each month), the total to that date is entered in the "Purchases Account" in the Ledger; thereupon a fresh start is made as regards the addition of the Purchases Book, and another total commences to be built up for entry in the Purchases Account in its turn.

The student will already have noted that the account to which the Purchases are debited is, as explained above, the Ledger account denominated "Purchases," and that the debit entry is not made immediately or directly in a Ledger account headed with the word "Goods."

Judging by the work sent in at Book-keeping Examinations, it would appear that the student is very generally taught to open a "**Goods Account**" immediately he commences to record a set of transactions in the Ledger; under this method, the Goods Account is debited with the amount of stock on hand at the commencement of trading, and the monthly (or other periodical) totals, as built up in the Purchases Book and Sales Book (including both Sales and Purchases returns), are also posted to the credit or debit of this account successively as they are compiled; this procedure, of course, satisfies the strict requirements of the theory of Double Entry book-keeping, but an account compiled upon these lines tends to become obscure in its reading, owing to the multiplicity of entries and reversing entries which appear on either side. The author has never seen an Account of this nature in actual practice.

It is preferable, in every way, to open separate Ledger accounts for "Purchases" and "Sales," for goods returned after purchase or sale by the trader, and for the initial stock of goods on hand, and, when these accounts have been completed, to build up a separate account, called a "**Trading Account**," by transferring to it the totals of these various "purchases," "sales," and other accounts which have been confined to record items of one special description. In this manner the Trading Account practically becomes a "Goods" Account in summarized form, and the totals of stock, purchases (for the period), sales (for the period), returns (for the period), closing stock,

and gross profit, stand out complete in themselves, and without losing their identity by being obscured in a multiplicity of detailed entries. Further information as to the nature and effect of a Trading Account, and as to the manner of its compilation, should be sought under the appropriate heading in Chapter IX. At this stage of the subject it will suffice to say that, in actual practice, the totals of the Purchases Book, and indeed those also of all the other books of original entry, analogous in their uses and method to the Purchases Book, are posted to separate and distinct Ledger accounts under their respective appropriate denominations, and that they are not posted to a "Goods" Account immediately they have been compiled. By means of transferring the totals of these "side" accounts into a combined Trading Account, the same effect (generally speaking) is produced as though a "Goods Account" had been kept open throughout the trading period, but the stating of the Account is more workmanlike and infinitely preferable.

It frequently occurs that a trader's business consists of two or more distinct departments, or that his purchases of goods group themselves naturally into two or more well-defined classes. In such cases the trader usually desires to be able to ascertain at any time the amounts of his purchases to date, classified under the departments to which they relate, or according to their nature, *e. g.* a trader whose operations take place in furs, woollen, and cotton goods will naturally desire to have his purchases of furs kept separate from his purchases of woollen goods, and the latter again kept distinct from his purchases of cotton goods; this division, too, is absolutely necessary if the trader wishes to ascertain what profit he is making in each department, or upon each kind of merchandise in which he deals.

To meet these requirements a more elaborate form of Purchases Book is employed, in which, besides the columns included in the example given above, additional "analysis" columns are appended. These analyses columns are in each case designed to contain the purchases made for any one department, or of any one kind of goods, and the name of the particular department or sort of goods appears at the head of its respective analysis column. The analyses columns are added up and carried forward from page to page in the same manner in which the accompanying "total" column is dealt with.

At the end of any given period of time the trader will post the total purchases to date to the debit of the Purchases Account in the Ledger, which, in its turn, will be

PURCHASES BOOK (Analyzed Form)										42
Date.	Bought From.	Particulars.	Ledger Folio.	Furs.		Woollen Goods.		Cotton Goods.		Total.
				£	s. d.	£	s. d.	£	s. d.	£
1908.										
Dec. 1	Brown & Co....	4 Jackets, seal.....		121	0 0					
		3 Necklets, sable.....		45	0 0					
		2 Cases, assorted goods..				24	6 0			
		4 Packages "	21					18	6 0	208
" 1	Wilson Bros....	10 Pieces sheeting.....	42					7	4 2	7
" 1	J. Higgins.....	50 " flannel.....	84			93	6 0			93
				£166	0 0	£117	12 0	£25	10 2	£309

The entries appearing in the above specimen Purchases Book would appear in the trader's Ledger, assuming there were no more purchases in the month of December, as follows—

THE TRADER'S LEDGER (*Debit side only*).
PURCHASES ACCOUNT
Dr.

Date.		Folio.	Furs.		Woollen Goods.		Cotton Goods.		Total.
			£	s. d.	£	s. d.	£	s. d.	£
1908.									
Dec. 31	To Purchases for the Month.....	P.J. 42	166	0 0	117	12 0	25	10 2	309

ruled in columns, every column representing a department or a particular class of goods as was the case in the Purchases Book. As has already been mentioned, and as will

be explained more fully later on in this treatise, the grand total of the entries appearing in the Purchase Account is subsequently transferred, at the close of any given period, to the debit of the "Trading Account." The Purchases Account in the Ledger can therefore be described as a temporary resting-place only, for the purposes of record and analysis, of the items appearing in it.

There is, of course, practically no limit to the extent to which analysis can be carried out by means of a Columnar Purchases Book, and in some modern businesses it is not uncommon to employ twenty or more analysis columns. Again, where the volume of business is such as to necessitate the subdivision of the books in order to facilitate their expeditious posting, the Purchases and Sales Books are often multiplied in number, and divided alphabetically or geographically into sections, to meet the needs of the business and the staff. Where more than one Purchases Book is employed there may be either one Purchases Account in the Ledger to which the totals of these books are all posted, or, in an extreme case, more than one Purchases Account may be kept.

Specimen forms of a Columnar Purchases Book and the analyzed account kept in the Ledger under the title of the "Purchases" Account are given on the previous page. The entries appearing in the Columnar Purchases Book are posted in the Columnar Purchases Account in the Ledger upon the assumption that no further transactions took place during the month of December.

EXERCISES.

5a.

Write up the following transactions in King & Co.'s Purchases Book, ruling the necessary form, and indicate what should be done as regards the posting of the various items and of the total in the Ledger.

Note.—All purchases stated below are "on credit."

1909.

- April 1. Bought from the Western Distributing Company 1,000 tons large steam coal at 17s. 6d. per ton.
- „ 13. Bought from Harris Bros. 2,000 tons large steam coal at 17s. 9d. per ton, less 5 per cent. trade discount.
- „ 14. Bought from the Brown Colliery Company 850 tons large coal at 17s. per ton, less 5 per cent. trade discount, and 350 tons small coal at 9s. 3d. per ton, less 7½ per cent. trade discount.
- „ 26. Bought from the Aberwryn Deeps Coal Syndicate 2,000 tons large coal at 18s. per ton, less 2½ per cent. trade discount, and 1,000 tons small coal at 7s. 10d. per ton.

5B.

Rule a form of Purchases Book containing Analysis Columns for Clocks, Watches, and Jewellery departments, and enter therein the following transactions—

1909.

May 2. Purchased from Verner & Cie.—

3 clocks, nos. A621-623, at £4 16s.
each.

10 watches, nos. B32416-25, at
£3 15s. each.

Less, 10 per cent. trade discount.

13. Purchased from Harris & Co.—

25 pendants, assorted types, nos. C1840-64, at a price of £38 4s. 9d. for the lot, less 2½ per cent. trade discount.

., 18. Bought from Breguet Frères—

12 watches, nos. B32426-37, at £8 4s. 6d. each net.

4 clocks, nos. A624-7, at £16 each, less 5 per cent.
trade discount.

., 26. Bought from the New York Clock Company—

50 alarm clocks, nos. D14167-216, at 3s. 6d. each,
less 15 per cent. trade discount.

25 clocks, nos. V324-48, at 12s. 6d. each, net.

5c.

Rule an Analysis Purchases Book containing Analysis Columns for the following departments, viz. (1) Furniture, (2) Carpets, (3) Cutlery, (4) China and Glass, (5) Jewellery, and enter therein the following transactions—

1909.

April 1. Bought from Welton & Co., subject to trade discount of 10 per cent.—

20 doz. table-knives, J1, at 25s. 6d. per dozen.

30 doz. dessert-knives, J34, at 59s. per dozen.

15 gold bracelets, J716, at 26s. 9d. each.

1. Bought from the Household Furniture Manufacturing Company, subject to trade discount of $2\frac{1}{2}$ per cent.—

3 writing tables, W929 (4 ft.), at £3 0s. 6d. each.

3 fumed oak bookcases, W1042 (3 ft. 6 in.), at
£4 18s. 9d. each.

Walnut dining-room suite, X1092 (tapestry), at
£9 15s. 6d.

2. Bought from the Midland China Corporation, Ltd.,
30 toilet services, G1342/3, at £1 5s. 6d. each.

„ 2. Bought from Hansen & Co., subject to 5 per cent. trade discount—

100 art squares Axminster carpets, assorted patterns,
9 ft. x 9 ft., at £3 0s. 6d. each.

10 Brussels carpet squares, 9 ft. x 12 ft., at
£2 10s. 3d. each.

3. Bought from Hervin & Co., subject to 15 per cent. trade discount—

30 18-ct. pearl and turquoise flower brooch-pins
at 20s. each.

25 15-ct. gold curb bracelets, turquoise collet, at
£2 each. *

April 4. Bought from the Universal Furnishing Company—
50 kitchen chairs at 2s. 6d. each.
30 bedroom chairs at 2s. 9d. each.

5d.

1. Explain why a Purchases Book is made use of in practical book-keeping.

2. Give an elementary form of Purchases Book, and explain the method of its use.

3. What is meant by an "Analysis" Purchases Book? What are its special uses and advantages?

4. Rule a form of an "Analysis" Purchases Book suitable for an undertaking consisting of the following departments—viz. (1) Groceries, (2) Provisions, (3) Wines and Spirits, and (4) Household requisites, and pass five specimen entries through this book.

Answers.—5A. Total purchases, £5,544 0s. 6d.
5B. Total purchases, £266 11s. 1d.
5C. Total purchases, £581 6s. 10d.

CHAPTER VI

THE SALES BOOK (OR DAY BOOK)

THE principles which, in modern practice, underlie the recording of a trader's *Sales*, are almost identical with those described in the preceding chapter as regulating the record of a trader's *Purchases*, subject to the difference that the sides upon which Sales are entered in the Ledger (whether in the Personal or Impersonal Accounts) are, of course, the reverse of those upon which the Purchases appear.

Inasmuch as the sales effected by a trader frequently form a large proportion of his transactions, and also as sales upon credit are usually largely in excess of sales

SALES BOOK (Simple Form)

Date.	Particulars.	L e d g e r F o l i o.	£ s. d.			£ s. d.		
1908.								
Dec. 1	<i>Warmington & Co.</i> —							
	Suite of Furniture.....		27	10	0			
	4 Chairs at £1 each.....		4	0	0			
	4 Mirrors at £5 each.....		20	0	0			
			51	10	0			
	Less 5 per cent. Trade Discount		2	11	6			
		132				48	18	6
" 2	<i>Erwen Bros.</i> —							
	Mahogany sideboard		64	10	0			
	Less 10 per cent. Trade Discount		6	9	0			
		146				58	1	0
	Carried forward to the next page of the Sales-Book *					£106	19	6

* This total, upon its completion at the end of the period, is posted to the credit of the "Sales Account" in the Ledger.

effected for cash, a special book of original entry, called the "**Sales Book**," "**Sales Day Book**," or "**Sales Journal**," is employed for the record of all sales upon credit as they take place, and to facilitate the gradual compilation of

one or more totals of credit sales for subsequent posting to the credit of the Sales Account in the Ledger.

The lines upon which the Sales Book is constructed,

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SALES BOOK (Analyzed Form)

Date.	Sold To.	Details.	Ledger Folio.	Dept. A (China).	Dept. B (Glass).	Dept. C (Cutlery).	Total.
				£ s. d.	£ s. d.	£ s. d.	£ s. d.
1908. Dec. 1	Wilson & Co. ...	1 Tea-service..... 1 Set table glass..... 10 dozen Knives..... Assortment of china and glass goods as per Sales Carbon Memo Books	72	10 0 0	11 5 0	12 4 0	33 9 0
" 3	Harris Bros.....						
" 6	Brown, Jones & Co.	20 dozen Knives..... Carried forward to the next page of the Sales Book	94 41	84 0 0	25 0 0	21 6 0	109 0 0 21 6 0
				£94 0 0	£36 5 0	£33 10 0	£163 15 0

The entries as set out in the above specimen Sales Book when posted into the trader's Ledger, assuming they completed the sales for the month of December, would appear as follows—

THE TRADER'S LEDGER (*Credit side only*).

SALES ACCOUNT

Cr.

Date.	Folio.	China.	Glass.	Cutlery.	Total.
		£ s. d.	£ s. d.	£ s. d.	£ s. d.
1908. Dec. 31	S.J. 48	94 0 0	36 5 0	33 10 0	163 15 0

and the methods of its employment, are similar to those already described as applicable to the Purchases Book; a simple form is sufficient for the needs of, and is found

in general use in, small undertakings; more elaborate "analyzed" forms of Sales Books are, however, necessary in large businesses, where the separation of the transactions into classes or departments is essential.

Sales upon credit are entered as they occur direct into the Sales Book (whether the simple or the elaborate type be used), and from thence they are posted to the debit of the Personal Accounts kept by the trader in order to record his transactions with the persons to whom he sells his merchandise.

The total of the Sales Book is carried forward from page to page, and the final total, for any given period, is posted to the credit of a "Sales Account" in the Ledger. As will be seen later on, the grand total of the entries appearing in the Sales Account are subsequently transferred to the credit of the "Trading Account," and the Sales Account thus becomes merely a temporary resting-place for the items recorded in it.

Specimen forms of Sales Books (Elementary and Analyzed types) are given above, as is also an example of a Columnar "Sales Account" in the trader's Ledger.

EXERCISES.

6A.

1. Rule a form of Sales Book suitable for a small business, and insert therein five specimen entries.

2. Indicate briefly the lines upon which the foregoing Sales Book is worked, and in what respect it may be described as saving labour.

3. What are the consequences, in a book-keeping sense, of an incorrect addition being made in the extreme right-hand column of a Sales Book?

6B.

1. Rule a form of "analyzed" Sales Book suitable for a business consisting of the following four departments, viz. Furs, Woollen Goods, Silks and Cotton Goods, and pass through it eight transactions (two for each department), four of which are to be for "net cash," while the other four are to be subject to a trade discount of 5 per cent.

2. Indicate in what respects an analyzed "Sales" Book resembles, and differs from, an analyzed "Purchases" Book.

3. Give a form of "Sales" Ledger Account suitable to the analyzed Sales Book ruled by you in answer to Question 1 of this exercise, and state what is eventually done with the items posted to this account.

6c.

Prepare a suitable ruling for a Tabular Sales Book to record the undermentioned items, and enter them therein—

1909.		£	s.	d.
March 3.	Sold to Charles Birget & Co. 3 Chests of Tea	16	10	0
„ 4.	Sold to Robert Kilrough 6 Cases of Sugar, and allowed him 10 per cent. trade discount	18	0	0
„ 5.	Sold to James Birchets 10 Bags of Coffee	40	18	6
„ 7.	Sold to John Warner 4 Chests of Tea, and allowed him 12½ per cent. trade discount	19	17	6
„ 12.	Sold to George Coe 3 Cases of Sugar	9	10	0
„ 14.	Sold to Frank Ball 4 Bags of Coffee, and allowed him 10 per cent. trade discount	18	6	4

6d.

Rule an analyzed form of Sales Book containing columns for the following departments, viz. (1) Gloves, (2) Hats, (3) Costumes, and (4) Boots and Shoes, and enter therein the following transactions—

1909.

- April 1. Sold to Brown & Co. 50 pairs 12-button length Chamois Gloves, at 2s. per pair net, and 5 dozen pairs 2-strap Glacé Kid Ladies' Shoes at 8s. 9d. per pair, subject to 5 per cent. trade discount.
- „ 1. Sold to Wilson Bros. 10 Hats, Paris models, at £10 16s. the lot, and 4 Ladies' Costumes, Ready-made, at £2 15s. each.
- „ 2. Sold to Merriman & Honeydew 2 dozen Ladies' Blouses, Silk, Assorted Colours, at 7s. 6d. each (Costume Department), and 3 dozen pairs Ladies' 3-button French Kid Gloves, Imperial Points, at 25s. per dozen pairs, both the foregoing sales being subject to 10 per cent. trade discount.
- „ 3. Sold to Weston & Co. 1 pair Ladies' Deerskin Gauntlet Gloves, made to order, 6s. 6d.
- „ 4. Sold to Myrtle, Rose & Co. 24 Fancy Frilled Pyrenees Wool Capes, Assorted Colours, at 15s. 9d. each, subject to 5 per cent. trade discount.
- „ 4. Sold to Merriman & Honeydew 2 dozen pairs Ladies' Glacé Kid Walking Shoes, Patent Cap and Facings, at 10s. 3d. per pair, subject to 2½ per cent. trade discount.
- „ 5. Sold to Verner & Co., subject to 3 per cent. trade discount, 15 Paris Model Hats, at £1 2s. each; 4 Costumes, Ready-made, at £2 2s. 6d. each.
- „ 6. Sold to Myrtle, Rose & Co. 25 Ostrich Tips, assorted colours, at 3s. 9d. each, subject to 5 per cent. trade discount.
- „ 6. Sold to Warren, Charles & Co. 10 pairs Ladies' Boots, "Rose" pattern, at 15s. 6d. per pair, subject to 2½ per cent. trade discount.

Answers.—6c. Total Sales, £123 2s. 4d.
 6d. Total Sales, £129 14s. 10d.

CHAPTER VII

THE JOURNAL

It has already been explained that the Ledger forms the complete and permanent record of a trader's transactions, and, regarding the Cash Book as an integral part of it, it is the Ledger which affords the necessary material for the construction, successively, of the Trial Balance and the Balance Sheet.

It has also been mentioned that, for purposes of convenient grouping of sales and purchases "on credit," and in order to facilitate their subsequent entry in the Ledger, transactions of these two types are marshalled in subsidiary books (called "Sales" and "Purchases" Journals) prior to their final record in the Ledger.

It still remains to be explained that those transactions which do not pass through the Cash Book, Sales Journal, or Purchases Journal, are similarly marshalled in one or more subsidiary books, called "Journals," prior to their respective entry in the Ledger. The Sales and Purchases Books are themselves "Journals," in the sense that they marshal entries for subsequent posting, and, except for the fact that they occupy a somewhat special position in a trader's system of book-keeping, these books could have been suitably explained in this chapter in company with the other Journals; owing, however, to the extended use to which books of this kind are put in modern practice, it has been considered advisable to explain them in detail in the two previous chapters.

The Cash Book and the Journals (of whatever class) form the "books of original entry" in common use, and it is an accepted rule in present-day book-keeping that no transaction shall be entered in the Ledger without having previously appeared in some "book of original entry." This salient rule arises out of the necessities of office organization.

The various books of original entry can be written up by one or more clerks immediately upon the occurrence of a transaction, and these books can be subsequently

handed to the Ledger-keeper to be posted by him in the trader's Ledger at his leisure or convenience. Incidentally, in the auditing of a trader's books, the fact that the record of each transaction appears in a book of original entry as well as in the Ledger permits of two auditors being simultaneously employed to check the accuracy of the trader's postings, one auditor being able to "call over the transactions" from the book of original entry to another auditor holding the Ledger. It will be obvious that this convenience saves an immense amount of time, especially when the books are ponderous in size.

Apart from the Sales and Purchases Books already dealt with, the Journals employed by a trader for the purpose of marshalling his transactions are as under—

1. **"Returns" Journals**, which are used to record transactions in which goods purchased are returned to or by the trader on account of some defect, error, or unsuitability.
2. **Bills Receivable and Bills Payable Journals** (or "Books") which are employed to marshal transactions respecting the Bills Receivable given to the trader or the Bills Payable accepted by him.
3. **Other Special Journals**, devised and used to record transactions of one or more special types according to the particular requirements of the business in which they are employed.
4. **The Journal proper**, which is used to record, as a book of original entry, those transactions (other than cash transactions) which cannot conveniently be placed in any of the Journals previously mentioned.

The student will find that the Returns Journals and the Bills Payable and Receivable Books are explained in the next chapter; the "Special" Journals, referred to above (3), naturally vary according to the character and requirements of the business in which they are employed or according to the nature of the transactions they are designed to record, and need no detailed mention here. It is therefore

THE JOURNAL PROPER

which remains for explanation in this place.

The generally accepted use of the "Journal proper," in modern commercial book-keeping, is, as has already been stated, merely that of a book of original entry for

the record of transactions which cannot be conveniently marshalled for subsequent posting in any other book of original entry. Its form, however, is such that *any* transaction, whether "Cash," "Sale," "Purchase," "Return," or indeed whatever its nature, could, if desired, be originally recorded in this book, although the labour and inconvenience of such a proceeding in a business of any magnitude would obviously be enormous.

In earlier times, however, the Journal was used as the main book of original entry, and the Cash Book and such other books of original entry as were employed were regarded as accessory to it, entries in many cases appearing first in the one set of original records and subsequently in the Journal.

Judging by the work sent in by examination candidates there would still appear to be great diversity of opinion amongst teachers of book-keeping as to the practical uses of the Journal proper. Some candidates even go to the extreme length of journalizing every item appearing in an exercise before preparing the accounts required by the terms of the question. The inevitable result of this proceeding is that examinees pursuing these methods rarely have time to attempt more than a small portion of the paper set.

In the opinion of the author, teachers will be wise to encourage students, particularly in elementary stages, to acquire facility in quickly and correctly journalizing any transactions that may be put before them. Ample practice in this direction will render many matters, which often present difficulties to the student's mind, much easier of comprehension, and will, moreover, enable him to acquire the habit of deciding, with method and rapidity, upon the proper destination of the items composing any transactions he may encounter. Probably nothing will exemplify more forcibly the principle that every debit must have its correlative credit than the cultivation of this practice. Let the student therefore acquire the habit of *thinking in Journal entries* when confronted by book-keeping problems.

If a reference is made to Chapter XXII it will also be noted that, in the author's opinion, students will be wise, for the reasons there stated, to journalize the adjusting entries arising out of any exercise or set of accounts prepared by them for examination purposes.

Subject to the legitimate and helpful employment of

the Journal in the above directions, the student should be given clearly to understand that the uses to which the Journal proper is put, in modern practice, are *strictly limited*, as will be explained hereafter.

On the continent the Journal proper is still extensively employed, and, in France, under the Code Napoléon, its use is compulsory, and it is designed so as to contain the whole of a trader's transactions; but in modern commercial practice in the United Kingdom the employment of the Journal proper has almost reached vanishing point. It is now over twenty years since the author last saw the old practice of journalizing every transaction employed in this country, and its continuance in that case was solely due to the obstinacy of the book-keeper concerned, who eventually died as the result of the breakdown occasioned by the overwork entailed by his cumbersome and antiquated methods.

Many important business houses employ no Journal proper at all, making all the necessary adjustments by means of direct transfers from one Ledger account to another.

In the opinion of the author, it is advantageous to keep a Journal for the reason, if for no other, that it is often convenient to have a permanent record in concise form and chronological order of the annual adjustments, provisions, etc., made upon closing the books of a business for any given period.

It is often useful, also, for future reference in case of doubt or dispute, for such entries to be signed or initialed by the partners or by the company's officials concerned. The entries passed through the Journal proper should, however, be strictly limited to the necessary record of opening entries, closing entries, adjustments, corrections, etc., or to such entries as cannot be scientifically passed through any other book of original entry. For the accommodation of entries such as the above, the Journal proper offers the only convenient posting medium.

The common form of the Journal proper is simple. It contains columns for the date of the transaction, for the details of which it is composed (including the names of the Ledger accounts in which the entry is to be debited and credited), a folio column, and a pair of money columns (Dr. and Cr.). The purpose of Journal entries is merely the lucid statement of transactions in correct form for posting in the Ledger, a process which is called "**Journalizing**"

This intention (the correct statement of transactions in proper form for posting) could, of course, be accomplished by any form of book which permitted a succinct and concise synopsis of the entry to be made, and some such form as the one appended could be used.

E.g. It is desired to state, in convenient form for posting, the parting with a horse worth £100 in exchange for a carriage worth a similar sum.

Example.—

	£	s.	d.
Debit Carriages Account	100	0	0
Credit Horses Account.....	100	0	0
In respect of the carriage received from John Smith in exchange for my horse "Toby." *			

* The transaction here used for the purposes of exemplification, *i. e.* the direct exchange of one commodity against another, is not to be taken as illustrative of modern commercial methods. Direct barter of one article against another is rare in practical business; transactions which are tantamount to barter in their effect being usually stated in the form of sales and purchases between the respective parties. The entries then find their due places in the customary Sales and Purchases Books.

It will be seen, however, that there is one defect in the above form, *viz.* that, apart from the instructions as to debiting and crediting at the extreme left-hand side of the entries, there is nothing in the relative positions of the money sums (£100 in each case) to indicate upon which side of the respective Ledger accounts the entries are to be made. It must be remembered that, in glancing through transactions prior to posting them in the Ledger, the position of the money sums (either on the debit or the credit sides) in the Cash Book and Sales and Purchases Journals indicates, to a greater or less degree, the side of the Ledger account upon which the item is to be entered, and it is desirable that some such indication should also be afforded to the Ledger-keeper when posting from the Journal proper.

The form of the modern Journal has therefore been modified in order to include this very desirable end. Two money columns are provided in the place of the single column given above, and all entries which are to be posted to the debit in the Ledger are entered in the left-hand money column in the Journal, while all entries which are to appear in the Ledger on the credit side are placed in the right-hand money column in the Journal. At the same time and with the same object

(viz. clearness in posting) the following rules are followed when compiling Journal entries, viz.—

(1) That the account (or accounts, if there be more than one) which is to be debited in the Ledger appears in each Journal entry *before* the account (or accounts) which is to be credited.

(2) That the Accounts which are to be debited are shown in the Journal entry slightly more to the left-hand side than those Accounts which are to be credited.

A transaction stated in proper Journal form, ready for posting, appears, therefore, much in the following form (taking the same example as previously used)—

	£	s.	d.	£	s.	d.
Corriages Account	100	0	0			
Horses Account				100	0	0
For property exchanged this day.						

A transaction stated in this manner corresponds almost exactly to the form of Journal entry used in modern practice.

The form employed in commercial practice differs from the above example only in the fact that it contains additional columns for dates and Ledger folios, and a slight verbal alteration in the method of stating the entry also takes place; viz. the word “to” is prefixed to all items which are to be posted to the credit of accounts in the Ledger.

A form of Journal is appended in which the above transaction is set forth in proper commercial form.

JOURNAL

1908.		£	s.	d.	£	s.	d.
Jan. 5	Corriages Account Dr.	100	0	0			
	To Horses Account				100	0	0
	For property exchanged this day.						

The transaction shown, by way of an example, in the specimen form of Journal given above is of a simple nature, there being only one account to be debited with a certain sum of money and another account to be credited with a like amount.

Transactions, however, frequently occur which are more complicated, wherein, for example, a single debit

entry for a certain sum is to be equalized by two or more credit entries for different portions of this sum (the total credit entries equalling in amount the debit entry), or *vice versa*, *e.g.* the trader may exchange a horse worth £50, receiving for it a cart worth £30 and hay worth £20. In order to record this transaction properly the trader must credit his "Horses" Account with £50 and must debit "Cart" Account with £30 and "Fodder" Account with £20. The Journal entry will therefore appear as follows—

JOURNAL

1909.			£	s.	d.	£	s.	d.
Feb. 5	Sundries, viz.—							
	Cart Account	Dr.	30	0	0			
	Fodder Account	Dr.	20	0	0			
	To Horses Account.....					50	0	0
	For property exchanged this day.							

Other compound entries must be treated, according to their requirements, in a similar manner; the word "Sundries" being prefixed to the accounts which are to be debited or credited if there is more than one account on either side.

A further illustration may be given, in which more than one entry is required on each side of the Journal, *e.g.* when the trader parts with a horse worth £50 and £10 worth of harness, receiving in exchange a cart worth £30 and fodder to the value of £30. The entry for this transaction will be as follows—

JOURNAL

1909.			£	s.	d.	£	s.	d.
Feb. 5	Sundries	Dr.						
	To Sundries, viz.—							
	Cart Account		30	0	0			
	Fodder Account		30	0	0			
	Horses Account					50	0	0
	Harness Account.....					10	0	0
	For property exchanged this day.							

The remark placed at the foot of a Journal entry (*e.g.* "for property exchanged" as above) is intended to furnish a concise explanation of the nature of the transaction, and is termed the "**Narration.**" The narration, of course, varies according to the nature of the entry to which it relates, and should not be allowed to become too voluminous.

The transactions which appear in the Journal are,

as has been indicated previously, those which from their nature cannot be conveniently marshalled in correct form ready for posting to the Ledger in any of the other books of original entry; they are, in practice, consequently mainly confined to "transfers" of amounts between any two or more Ledger accounts, together with the opening and closing entries made at the commencement and termination respectively of any particular trading period.

Entries which are merely of the nature of transfers, whether made during a trading period or at the close of it, are usually of a comparatively simple nature, and follow upon the lines previously laid down, but the records which are necessary at the initiation of a system of book-keeping, and at the conclusion of a trading period, are perhaps of a somewhat special nature, and may be advantageously explained in detail.

If a person possessing certain assets, and being subject to certain liabilities (the difference between these two sets of figures representing, of course, his "capital") engages in business, the details of these Assets and Liabilities require to be marshalled in the Journal before the necessary accounts for the respective items are opened in the Ledger. The various assets are set forth in the Journal in the debit column, and the liabilities and the capital are similarly entered in the credit column; the totals of the items on either side counterbalance each other, and the whole forms one comprehensive and self-explanatory Journal entry. It must here be mentioned that, contrary to the general rule which prohibits cash entries from appearing in the Journal (their appropriate book of original entry being, of course, the Cash Book), the balance of cash in hand with which a trader commences business is entered with the other assets on the debit side of the Journal, and is posted from thence to the Cash Book. This procedure arises out of a desire to include the whole of the trader's initial financial position in the one comprehensive Journal entry, including the full figure of the trader's original capital, so that a complete history of the initiation of the business may be placed upon record.

This principle is carried out in the subjoined example.

Example.—A. B. starts in business on January 1, 1909, with the following assets—

Cash at the Bank, £100; Stock of Goods on hand, £250; Bills Receivable, £100.

Debtors—W. Brown, £365; Holmes & Co., £45. (Total, £860.)

At the same date A. B. owes the following liabilities—

Gremaud & Co., £45; Beck Bros., £250. (Total, £295.)

The Journal entry necessary in order to open A. B.'s books will be as follows—

JOURNAL

1909.			£	s.	d.	£	s.	d.
Jan. 1	Sundries	Dr.						
	To Sundries							
	Cash		100	0	0			
	Stock		250	0	0			
	Bills Receivable		100	0	0			
	W. Brown		365	0	0			
	Holmes & Co.		45	0	0			
	Gremaud & Co.					45	0	0
	Beck Bros.					250	0	0
	Capital Account.....					565	0	0
	For Assets, Liabilities, and Capital at the commence- ment of business.							
			£860	0	0	£860	0	0

At the conclusion of any given period of trading (*e. g.* at the end of a half-year) the trader usually extracts his "Trial Balance" (*i. e.* a classified list of the balances remaining on his Ledger), and prepares to construct therefrom his Trading and Profit and Loss Accounts.

As has been previously indicated (see page 57) the Trading and Profit and Loss Accounts are constructed by transferring to new accounts, opened for the special purpose under the above headings, the balances of all those accounts which represent (for the Trading Account) transactions in goods and (for the Profit and Loss Account) items of "loss" or "gain." The loss or gain shown on the Trading Account is itself transferred, immediately upon its ascertainment, to the Profit and Loss Account.

Transfers of this nature are effected by means of the Journal, as also are the transfers which are necessary in order to carry into effect any desired writing down or "depreciation" of any particular asset, the entries necessary to raise any desired reserves, and the final transfer of the net balance of Profit or Loss (in the case only of private firms and partnerships and not in the case of Joint Stock Companies) to the Capital Account. All these matters will, however, be fully dealt with hereafter, when the preparation of the above accounts is under consideration.

Example.—The following balances, extracted from a trader's Trial Balance, are to be transferred to the Trading and Profit, and Loss

Accounts through the Journal, and the closing balance of the Profit and Loss Account is to be transferred to the Capital Account.

Opening Stock (Dr.), £500; Purchases (Dr.), £5,000; Sales (Cr.), £6,000.

The Closing Stock, £400 (Dr.), is to be brought into the books. Salaries (Dr.), £500; General Expenses (Dr.), £360; Discounts received (Cr.), £50.

JOURNAL (Closing Entries)

1908.		L. F.	£	s.	d.	£	s.	d.
Dec. 31	Trading Account Dr. To Sundries viz. Stock Account ... (Stock, Jan. 1, 1908) Purchases Account ... For Balances Transferred.	131 32 36	5,500	0	0			
						500	0	0
						5,000	0	0
" 31	Sundries Dr. To Trading Account viz. Stock Account (Stock, Dec. 31, 1908) Sales Account For Balances Transferred.	131 32 37				6,400	0	0
" 31	Trading Account Dr. To Profit and Loss Account For Gross Profit Transferred.	131 132	900	0	0			
						900	0	0
" 31	Profit and Loss Account Dr. To Sundries viz. Salaries Account General Expenses Account..... For Balances Transferred.	132 84 86	860	0	0			
						500	0	0
						360	0	0
" 31	Discount Account Dr. To Profit and Loss Account For Balance Transferred.	74 132	50	0	0			
						50	0	0
" 31	Profit and Loss Account Dr. To Capital Account For the Net Profit for the year 1908 transferred to Capital Account.	132 1	90	0	0			
						90	0	0
			£18,800	0	0	£18,800	0	0

As has already been suggested, in the earlier part of this chapter, in many modern commercial houses, the closing entries comprised in the above entry would be made by means of direct transfers from one Ledger account to another. The only valid objection to this course is the fact that errors are perhaps more likely to creep in where this practice is maintained than in cases where the whole of the transactions are marshalled clearly before the book-keeper in the form of Journal entries.

EXERCISES.

7A.

1. What is a Journal? Explain the expression "Sales Journal."
2. What are the books of "original entry," and why are they so called?
3. What is the object and utility of the rule that "every transaction shall pass through some book of original entry"?
4. Apart from the Sales and Purchases Books give a list of the Journals usually employed by a trader.
5. What is the "Journal proper"? Explain the nature of the transactions which it should contain.
6. Briefly compare the present-day use of the "Journal proper" with the uses to which it was put in the early stages of Double Entry book-keeping.
7. If the debit and credit money columns of a Journal proper disagree as regards their total, what would you infer?
8. Give briefly the reasons which render the journalizing of the whole of a trader's transactions quite unnecessary in modern practice.

7B.

Construct, from the following details, the Journal entries necessary to open the books of Arthur Day on January 1, 1909, ruling the necessary form. Show Arthur Day's initial "Capital Account."

	£	s.	d.
Cash at Bank	362	1	9
Stock on hand	1,471	14	2
Creditors: Eager & Co.	32	1	0
Finch Bros.	176	15	4
Bills Receivable on hand	350	0	0
Plant and Machinery	549	13	2
Freehold Premises	2,004	6	11
Amount owing to W. Brown for Loans	1,500	0	0
Debtors: W. Good	362	13	9
R. Hall	40	0	0
Cash at Office	5	2	9

7C.

Journalize the following transactions, ruling the necessary forms—

- April 3. Exchanged two horses worth £35 each for one carriage worth £70.
- „ 5. Exchanged fodder to the value of £60 for one horse worth £25 and seven sheep worth £35.
- „ 8. Transferred from the Personal Ledger Account of A. Brown (to which account it had been incorrectly credited) a sum of £35 remitted by Brown & Co. for their credit on February 14 last; and credited the same to Brown & Co.
- „ 30. Wrote £30 depreciation off "Horses" Account and £25 off "Buildings" Account.
- „ 30. Wrote off as a Bad Debt £14 6s. 9d. owing by Wetherall Bros.

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- April 30. Created a Reserve of £100 as a provision against Bad and Doubtful Debts, this sum being estimated to be needed in future in respect of debts owing at this date.
 „ 30. Wrote £100 off Goodwill and Patent Rights Account.

7D.

The following balances, extracted from a trader's Trial Balance, are to be transferred to the Trading and Profit and Loss Accounts through the Journal; a reserve of £200 is to be raised to cover the estimated loss in connection with pending litigation, and the closing balance of Profit and Loss is to be transferred to the Capital Account. The closing Stock amounted to £1,200.

	£	s.	d.
Opening Stock	2,600	0	0
Purchases	10,400	0	0
Returns Inwards	100	0	0
Sales	13,460	0	0
Salaries and Wages	1,050	0	0
General Expenses	150	0	0
Rent, Rates and Taxes	300	0	0

Answers.—

- 7B. Balance of A. Day's Capital Account (Cr.), £3,436 16s. 2d.
 7C. Totals of Journal, £434 6s. 9d.
 7D. Net Loss, £140.

CHAPTER VIII

BILLS PAYABLE AND RECEIVABLE BOOKS. RETURNS BOOKS

It is a matter of experience in many trading concerns that the transactions in Bills of Exchange (whether "Bills Payable" or "Bills Receivable" from the trader's point of view) are sufficiently numerous to justify, or even to necessitate, the keeping of separate books of original entry in order to conveniently marshal them for subsequent Ledger posting. It is also a matter of experience that the main features of a Bill of Exchange, *e.g.* the dates of acceptance and maturity, the names of the drawer, acceptor, etc., are too numerous, in the majority of cases, for complete record in the limited space available for Ledger postings, and for this reason also the use of a separate record is desirable. As a result of these essential considerations separate Journals are, in practice, almost invariably used for the purpose of recording all transactions in bills, and the Journals so employed are commonly designed to contain much information of a statistical character in addition to fulfilling their purpose as books of original entry.

Separate books are used for (a) the Bills Payable "accepted" by the trader, and for (b) the Bills Receivable acquired by him.

When a trader "accepts" (*i.e.* undertakes to pay at maturity) a bill drawn upon him by one of his creditors, the necessary double entry consists of a debit to the creditor's Personal Account for the amount of the bill, and a credit to Bills Payable Account for a like sum. It must be borne in mind that the "acceptance" of a creditor's draft is always treated as cancelling the original debt to the extent of the amount of the draft, and as creating a fresh obligation to the holder of the bill (not necessarily the creditor), this obligation being recorded under the account styled "Bills Payable." When it is remembered that the Bills Payable, accepted by the trader in question, pass from hand to hand in commercial circles

without any notification to the acceptor of the various changes in ownership, the necessity for the Bills Payable Account at once becomes apparent, in view of the fact that it represents, at any time, the amount owing by the trader to the world at large on his Bills Payable.

When "accepting" a draft drawn upon him by a creditor the trader could, should he so desire, effect the necessary entry by debiting the creditor and crediting Bills Payable Account, by means of an entry in the Journal proper, and he could of course repeat this process in order to record every one of his acceptances as they occurred; as a result the credit entries of exactly similar character appearing in the Bills Payable Account would become so numerous that, in many businesses, the account would soon become unwieldy if dealt with in this manner.

If, on the other hand, these numerous separate credits to the Bills Payable Account can be replaced by one credit entry for the total acceptances accumulated during a given period, say monthly, it is obvious that economy and convenience in Ledger posting has been gained, and this desirable result is effected by means of the **Bills Payable Book**.

Consequently, in practice, all the drafts accepted by the trader are entered, upon acceptance, in the Bills Payable Book, from whence the Personal Ledger Account of the creditor is immediately debited; at the end of a given period the Bills Payable Book is added up and its *total* is posted to the credit of the "Bills Payable Account" in the Ledger, thus completing the double entry.

The form of a Bills Payable Book in common use appears on the opposite page, and three specimen transactions have been inserted therein.

When a trader's acceptances mature they are presented for payment either at his office or, more usually, at his bankers', according to the wording of his "acceptance" as written across the face of the bill. In either case, upon the payment of the sum represented by the bill, a credit entry must be made in the Cash Book (in the "Cash" or "Bank" column as the case may be), and this entry must be posted to the debit of the Bills Payable Account in the Ledger in the ordinary course. It may sometimes happen that the debit appearing in the Bills Payable Account, representing the payment of the bill, will reach the Bills Payable Account (on the debit side) before the total entry for the bills accepted over a given

BILLS PAYABLE BOOK

Date.	Number of Bill.	Drawer.	In whose favour drawn.	For whose account accepted.	Where payable.	Dates of Bills.	Tenor.	Due date.	Folio of Ledger account debited.	£ s. d.	Remarks.
1908.											
Jan. 1	101	Brown & Co.	Brown & Co.	Brown & Jones Bros.	London	Jan. 1, 1908	1 month from date	Feb. 4, 1908	36	200 0 0	
" 1	102	Jones Bros.	R. H. I		do.	Jan. 1, 1908	3 months from date	April 3, 1908	42	1,000 0 0	
" 1	103	J. H. Beck	Kamenetz & Co.	R. Wilson (Melbourne)	do.	Dec. 30, 1907	3 months after sight	April 4, 1908	64	755 16 2	
										£ 1,985 16 2	

Note.—If there were no further Bills Payable transactions during the trading period (e. g. the 3 or 6 months), the double entry would be completed by crediting £1,985 16s. 2d. to the Bills Payable Account in the Ledger.

BILLS RECEIVABLE BOOK

Date.	Number.	Acceptor.	Drawer.	From whom received.	Where payable.	Date of Bill.	Tenor.	Due date.	Folio of Ledger account credited.	£ s. d.	Remarks.
1908.											
Jan. 1	81	Horsman & Co.	J. R. Wills	Brown Bros.	Parr's Bank, Lombard Street	Dec. 20, 1907	3 m/d	April 2, 1908	32	614 0 0	* Paid at maturity
" 1	82	Wilson Bros.	Selves	Wilson Bros.	Yorksire Bank, York	Dec. 31, 1907	2 m/d	Mar. 3, 1908	64	50 0 0	Do.
" 1	83	Brown & Co.	J. Atkins & Co.	J. Atkins & Co.	Bank of England, Hull	Dec. 24, 1907	3 m/s	Mar. 29, 1908	14	500 0 0	(Discounted with Bank Feb. 3, 1908)
										£ 1,164 0 0	

Note.—If there were no further Bills Receivable transactions during the trading period (e. g. the 3 or 6 months), the double entry would be completed by debiting £1,164 to the Bills Receivable Account in the Ledger.

period is effected upon the credit side, although the former transaction takes place long after the latter; this apparent difficulty is made right when the total credit entry for acceptances is made in due course from the Bills Payable Book, and must not be allowed to confuse the student.

The **Bills Receivable Book** proceeds upon lines similar to those already explained as underlying the working of the Bills Payable Book, subject, of course, to the fact that the nature of the transactions it contains is reversed.

Bills Receivable as and when acquired by the trader are entered in detail in the Bills Receivable Book, and are posted from thence to the credit of the Ledger account kept for the person from whom they have been received; at the end of a given period the total of the Bills Receivable Book is posted to the debit of the Bills Receivable Account in the Ledger in order to complete the double entry.

When any Bill Receivable held by a trader is paid by him at maturity into his Bank for collection on his behalf, a debit entry in the Cash Book and a corresponding credit entry in the "Bills Receivable" Ledger account are made. If, by any mischance, the Bill should be returned "dishonoured," *i. e.* unpaid, it will be necessary to credit the Cash Book (in order to reverse the preceding debit to this account) and to debit the Ledger account of the person who has failed to honour his obligation. It then remains for the trader to consider what steps he will take with regard to his defaulting debtor. The small charges paid by the trader's Bankers for formally "noting," on his behalf, the dishonour of the acceptance are also debited to the Personal Account of the defaulter. It sometimes happens that a debtor, having previously dishonoured acceptances in the trader's hands, and having, consequently, been debited in the trader's Ledger with the amounts they represented, will offer some sort of composition, *e. g.* the immediate payment of half the amount of the bill in cash, accompanied by the debtor's fresh acceptance for the remainder of the amount. These transactions, if carried out, are recorded in the trader's books without any special reference to the circumstances out of which they arise, and are dealt with as ordinary transactions, the new Bill Receivable being passed through the Bills Receivable Book and credited to the debtor in the usual way.

A form of Bills Receivable Book appears on page 81 containing three specimen transactions.

When a trader has acquired a Bill Receivable from one of his debtors it becomes possible, should he so desire, to convert it into ready money, by disposing of it to a banker or to some other person or institution dealing in commercial paper. To successfully dispose of bills before maturity it is of course essential that the acceptor's credit should be favourably regarded in commercial circles. Naturally the trader will not receive, when selling a bill maturing several months ahead, the full amount which will be payable at its maturity; the purchasing banker will require some profit in the way of interest upon the amount advanced by him in accommodating the trader, consequently, when buying the bill, the purchaser will make a deduction from the face value ultimately receivable. This deduction is termed "**Discount**," and is computed at the interest upon the face value of the bill from the date of its purchase (or its "discount") until the date at which it is payable, at such rate per cent. per annum as the credit of the acceptor and the general condition of the money market will justify the purchaser in demanding. For example, if a trader, on January 1st, receives A. Brown's acceptance for £100 maturing on March 4th (*i. e.* March 7th, allowing for three days of grace), and sells this bill subject to discount to his banker on January 4th, at 4 per cent., the discount charged will be the equivalent of 62 days' interest on £100 at 4 per cent. per annum, *i. e.* 13s. 7d.

The banker, consequently, credits the trader with £99 6s. 5d. in exchange for the bill for £100, and this transaction will appear in due course in the trader's Pass Book in one of two ways, according to the custom of the particular bank in question. The practice of some banks is to credit their customer with the net amount (£99 6s. 5d.) realized by the sale of the bill, while other banks prefer to credit their customer with the face value (£100), debiting him simultaneously with the discount (13s. 7d.); the effect of course is the same in either case.

The trader who disposes of a Bill Receivable by discounting it with his bankers should record the transaction in his books according to the latter of the two methods adopted by bankers as described above; and this rule holds good in every case, whether his banker has

employed this method in connection with this particular bill, or the alternative procedure.

In the example given above the trader should consequently debit his Cash Book (in the "Bank" column) with the face value of the bill (£100), posting this item at the same time to the credit of the "Bills Receivable" Account in the Ledger in manner similar to that adopted where a Bill Receivable is paid at maturity. In order to record the amount of the discount (13s. 7d.) a credit entry should be made in the "Bank" column of the Cash Book, which should be posted to the debit of "Banker's Discount" or "Bank Charges" Account in the Ledger. The discount charges made by a banker in connection with the Bill Receivable bought by him from the trader must not be confounded either with the "cash discount" allowed by the trader upon payments made to him by his debtors, or with any "Trade discount" which may be deducted from the nominal catalogue price of goods sold; consequently it must not be placed in the "Discounts" column in the Cash Book. The discount deducted when selling a Bill Receivable corresponds with the interest paid to a bank in return for a loan, and should therefore be grouped with "Bank Interest" and other "Bank Charges."

The "remarks" columns on the extreme right-hand side of the Bills Receivable and Bills Payable Books are intended for the insertion of any useful notes regarding the fate or history of any particular acceptance; in the case of Bills Receivable which are discounted, a memorandum of their having been thus disposed of should be placed in the "remarks" column, and the same course should be adopted in the case of any Bills Receivable which have been returned "dishonoured" at maturity.

Returns Books

It frequently happens that, when a trader has purchased a quantity of goods, either for use in manufacturing or for immediate re-sale, portions of the goods supplied to him are found, upon delivery, to reveal some defect, or prove to be unsatisfactory in some respect; *e.g.* goods may arrive having been damaged in course of transit, or, where bought in bulk, portions of them may be inferior in quality to the type of goods contracted for, or they may prove to be "not up to sample."

In such cases the trader usually at once returns the

unsatisfactory goods to the firm from whom he has bought them, claiming at the same time an allowance equal to their full invoice value. Where the selling firm is one of good reputation, and is desirous of keeping the trader's custom, this allowance will usually be readily conceded.

It consequently becomes necessary to provide a special book of original entry to contain the record of these returns by the trader (known as "**Returns Outwards**"), and to marshal them in such book in the proper form for subsequent posting to the Ledger.

A return by the trader to the seller of goods found to be unsatisfactory is, in effect, equivalent, from a book-keeping point of view, to a re-sale of the goods to the original seller, this re-sale taking place at the original agreed cost of the goods to the trader, and it is upon these lines, therefore, that the book-keeping record of the "Return" is framed. In other words, the original transaction is allowed to pass through the Purchases Book, irrespective of the fact that some of the goods are subsequently "returned," and the "Return" in question is treated in due course as a special kind of sale (*i. e.* a re-sale).

The **Returns Outwards Book** follows upon lines almost precisely similar to those employed in the Purchases Book, as is obviously necessary, in view of the fact that the entries in the former book are intended ultimately to reverse certain entries in the latter. The entries in the Returns Outwards Book are posted *in detail* to the *debit* of the original sellers' accounts in the trader's Ledger, and the periodical totals of the returns are posted (usually monthly) to the *credit* of the Impersonal Ledger Account, headed "Returns Outwards." It will be remembered that the purchases are posted in the Ledger upon opposite sides, viz. to the *credit* of the seller's Personal Account (in detail) and to the *debit* of the "Purchases" Account (in total).

It was explained when dealing with the record of purchases, that simple forms of Purchases Books are met with as well as the more complex "analyzed" forms, examples of which were given: so also both simple and complex types of Returns Books are met with. It will in fact, probably be obvious to the student that whichever form of Purchases Book has been adopted must be complemented with a precisely similar type of Returns

Outwards Book in order that harmony of system and analysis may be maintained throughout.

Specimen forms of Returns Outwards Books are appended, an illustration being given both of the simple and complex types, and these books may be taken to correspond (as Returns Outwards Books) to the two types of Purchases Book given as illustrations on pages 56 and 59. The entries appearing in these specimen books, it is thought, do not require any fuller explanation.

RETURNS OUTWARDS BOOK (Simple Form)

Date.	Particulars.	Ledger Folio.	£ s. d.			£ s. d.		
			£	s.	d.	£	s.	d.
1909. Jan. 1	<i>Brown & Co.</i> — 2 Bales woollen goods damaged in transit...	84				28	10	0
" 10	<i>Wilson Bros.</i> — 2 Pieces cotton prints.. 8 " silk not up to sample.....	86	10	0	0			
			7	5	0	17	5	0
	Carried forward...					£45	15	0*

* On the supposition that no further Returns of Goods were necessary during the period (usually a month), £45 15s. 0d. would be posted to the credit of the "Returns Outwards Account" in the Ledger.

Where an analyzed form of Returns Outwards Book is used the Returns Outwards Account in the Ledger should be ruled in columns corresponding with the departments, or scheme of sub-division, adopted in the Purchases and Returns Books, just as the Purchases Account is ruled to correspond in this manner on page 59. The necessary ruling for the Returns Outwards Account is identical with that on page 59, except that the account is on the Credit side of the Ledger instead of on the Debit side, and the title of the account is, of course, appropriately changed.

Just as a trader may find it necessary to return goods to the persons from whom he has purchased them, so, in his turn, and for similar reasons, it frequently becomes necessary for him to receive back some of the goods sold by him to his customers.

Having agreed to the return of the goods in question, a "Credit Note" (usually printed in red ink) should be sent by the trader to each customer returning goods, setting out the value at which such goods have been taken back.

The forms of books used to record such "**Returns Inwards**" are almost identical with those employed to record "Returns Outwards," subject, of course, to the fact that the entries contained therein are posted in detail to the *credit* of the person by whom they have been returned, and that the total (for the given period) is *debited* ultimately to a "Returns Inwards Account" in the Ledger.

As was explained to be the case in connection with Returns Outwards, simple forms of **Returns Inwards Books** are met with, as well as the more complex analyzed forms, and in conjunction with the latter, an analyzed form of Returns Inwards Ledger account is found in use, just as was stated to be the practice in reference to "Sales," "Purchases," and "Returns Outward."

It will hardly be necessary to point out that in every case the form of the Returns Inwards Book must complement the form of the Sales Journal in use.

Specimen forms of Returns Inwards Books (simple and complex) are appended, the entries in which will, it is thought, prove to be self-explanatory.

The form of analyzed Returns Inwards Ledger Account to be employed in conjunction with the analyzed Returns Inwards Book follows upon lines identical with the ruling set out on page 64 for the "Sales Account," subject, of course, to the alteration of the heading of the account and the reversal of the sides of the Ledger upon which the items appear.

RETURNS INWARDS BOOK (Simple Form)

Date.	Particulars.	Ledger Folio.	£ s. d.			£ s. d.		
			£	s.	d.	£	s.	d.
1909.								
Jan. 2	<i>Harriman Bros.—</i>							
	30 Bags coffee.....	41				75	0	0
	(Returned as out of condition)							
" 2	<i>Buckley Bros. & Co.—</i>							
	1 Bag cocoa.....		2	10	0			
	25 Bags coffee.....		60	0	0			
	(Returned as not up to sample)	61				62	10	0
	Carried forward ...					£ 187	10	0*

* On the supposition that no further transactions took place during the period (e.g., a month), £187 10s. 0d. would be posted to the debit of the "Returns Inwards Account" in the Ledger.

RETURNS OUTWARDS BOOK (Analyzed Form)

Date.	Returned to.	Particulars.	Ledger Folio.	Furs. £ s. d.	Woolen Goods. £ s. d.	Cotton Goods. £ s. d.	Total. £ s. d.
1908.							
Dec. 5	Brown & Co.	2 Jackets, seal, moth-eaten.....	21	60 10 0			60 10 0
" 5	Wilson Bros.	2 Pieces sheeting, soiled	42			1 8 10	1 8 10
		Carried forward...		£60 10 0		41 8 10	£61 18 10

NOTE.—On the supposition that no further "Returns Outwards" took place during the period (e. g. the month), £61 18s. 10d. would be posted to the credit of the "Returns Outwards Account" in the Ledger.

RETURNS INWARDS BOOK (Analyzed Form)

Date.	Returned by.	Particulars.	Ledger Folio.	Furs. £ s. d.	Woolen Goods. £ s. d.	Cotton Goods. £ s. d.	Total. £ s. d.
1908.							
Dec. 6	Horniman & Son.	4 Pieces sheeting.....	34			12 0 0	12 0 0
" 8	Meneggio Bros....	2 Cases of fancy goods, returned as unsuitable,					
" 9	Grenaud & Cie ...	1 Package assorted skins, poor colour	36	37 15 0			37 15 0
		1 Bale woolen goods torn in transit.....	49		26 16 0		26 16 0
		Carried forward...		£37 15 0	£26 16 0	412 0 0	£76 11s 0d.

NOTE.—On the supposition that no further transactions took place during the period (e. g. the month), £76 11s 0d. would be posted to the debit of the "Returns Inwards Account" in the Ledger.

EXERCISES.

8A.

Rule a form of Bills Receivable Book for the use of Viner & Co., and enter therein the following bills received—

1909.

- April 3. Received from Harris Bros., accepted by them under date April 2nd, 1909, the 3 months' sight draft for £1,000 drawn by ourselves (Viner & Co.) in our own favour. Payable at the London & Eastern Bank, Norwich.
- „ 7. Received from Wilson & Co. a draft, due April 25th, 1909, dated January 22nd, 1909, drawn by them upon Child Bros. for £150, in their own favour, the same being accepted payable at the Bank of Ireland, Dublin.
- „ 15. Received from Salviati Frères a draft dated April 13th, 1909, due 3 months after date, drawn by Michel & Cie upon the Banque d'Avignon, Avignon, and accepted by the latter payable at the British & Foreign Banking Company, Ltd., Lombard Street, London, for £500.

8B

Rule a suitable form of Returns Outwards Book for John Gill, containing columns for Tea, Coffee, and Cocoa departments, and pass the following transactions through the same—

1909.

- June 1. Returned to Vesey & Son 5 chests of tea, invoiced at £10 per chest, as not up to sample.
- 4. Returned to Warren Bros. 25 bags of coffee, invoiced at £2 10s. per bag (subject to 5 per cent. trade discount), and 3 bags of cocoa, invoiced at £3 per bag net, the same having been injured by damp during transit.
- „ 15. Returned to V. Massey 5 bags of coffee, invoiced at £2 5s. per bag net, owing to insufficiency of contents.
- „ 19. Returned to Warren Bros. 3 bags of cocoa of inferior quality, invoiced at £2 per bag (not up to sample), and 2 bags of coffee, invoiced at £3 each (in excess of quantity contracted for).

8C.

1. What is the special utility of a Bill Receivable given in discharge of a debt between traders, (1) as regards the person drawing it, (2) as regards the acceptor?

2. Explain the manner in which a Bills Payable Account in the Ledger is constructed, and briefly describe the entries appearing in it on either side; in what book would you expect to find the details in explanation of the balance appearing at the close of a year on the Bills Payable Account in the Ledger?

3. A. B. receives a bill from C. D., one of his debtors, accepted by the latter; A. B. discounts this bill with the Union Banking Company, Ltd.; explain the entries necessary in A. B.'s books in order to record these transactions.

4. Explain the nature of, and the difference between, "Returns Inwards" and "Returns Outwards"; give two examples of causes for which a trader may "return" to the seller goods purchased by him from the latter.

5. Distinguish between (1) Trade Discount, (2) Cash Discount, (3) Banker's Discount, and explain the circumstances in which these types of discount arise in the course of a trader's operations. Show how they are recorded.

6. Explain the uses of the "Returns Outwards" Account in a trader's Ledger; what eventually becomes of the balance upon this account?

7. A. B., a trader, holds a bill for £100 accepted by Y. Z.; the bill is paid into A. B.'s bank for collection at maturity and is returned dishonoured. What entries must be made in A. B.'s books (1) for the amount of the bill, (2) for the charge for "noting" (1s. 6d.)?

8. Y. Z. subsequently pays A. B. in cash half the amount of the bill described in the preceding question, together with the noting charges, and hands him a fresh acceptance for the balance; show how these transactions should be recorded in A. B.'s books.

8D.

Rule a form of Bills Payable Book for the use of Smith & Co., and enter therein the following Bills Payable accepted by them. All bills are made payable at the Fleet Street Branch of the London and Western Bank.

1909.

- Oct. 25. Accepted Michael Frères' draft (to be charged to their account) at 30 days' sight, for £500, in favour of Lucien Ignace & Cie.
- „ 25. Accepted the Glamorganshire Tinplate Works', Ltd., draft for £326 19s. 4d., at 3 months from date thereof (Oct. 22nd, 1909), in favour of themselves and for their account.
- „ 26. Accepted, for account and on behalf of the Chicago and Southern Packing Company, a draft at 3 months after sight, drawn by their London agents (the Greenwich Importing Co., Ltd.) in favour of E. V. Harris Bros., Incorporated, for £1,000.
- „ 27. Handed to W. Dobson & Co. our acceptance, dated to-day, in their favour for £100, at 3 months date, in settlement of the balance owing to them.
- „ 28. Accepted a bill payable at 3 days after sight, drawn by the Eastern Townships, Ltd., of Calgary, for £250, in favour of the Canadian Banking Company; this draft is to be charged to Beavis & Co., Ltd., of London.

Answers.—8A. Total of Bills Receivable Book, £1,650.

8B. Total of Returns Outwards Book, £141 12s. 6d.

8D. Total of Bills Payable Book, £2,176 19s. 4d.

CHAPTER IX

THE TRIAL BALANCE, AND THE TRADING AND PROFIT AND LOSS ACCOUNTS

✓ A Trial Balance is a classified list of the balances appearing, at any given date, in the Ledger or Ledgers before the closing entries have been made. In extracting this list of balances the Debit and Credit balances are separated by being placed in their different and appropriate columns.

The form of Trial Balance in general use is as follows—

TRIAL BALANCE

Ledger Folio.	Name of Account.	Dr.		Cr.	

When entering balances in a Trial Balance a considerable number of examination candidates enter the *gross totals* of the Debit and Credit sides of each Ledger account instead of the *balance only* of the account in its appropriate column. The author has only seen the former method in actual practice on very rare occasions, and students will be wise to bring themselves into line with modern methods by showing *balances only* in any Trial Balances they may have to prepare.

In every Trial Balance the total of the Debit balances should agree with the total of the Credit balances, and unless this agreement occurs it must be assumed that a mistake has been made either in the Ledger, the books of original entry, or in the compilation of the Trial Balance itself. The fact that, in any given case, the total Debit and Credit balances appearing in the Trial Balance do agree, the one with the other, does not necessarily furnish conclusive proof that the whole of the book-keeping has

been correctly accomplished, for errors may have been made on both credit and debit sides for the same amount, the error on the one side compensating for that on the other, or an "error of principle" may have been committed without necessarily upsetting the arithmetical balance of the books, *e.g.* expenditure which should properly have been treated as a "loss" may have been ranked as an asset, or *vice versa*. Briefly put, the agreement of a Trial Balance merely proves that there is a debit for every credit, behind which agreement errors of omission, commission, and of principle may yet remain undiscovered. In practice, however, the agreement of the totals of the Trial Balance is generally taken to indicate that the work has been done with an ordinary degree of care and accuracy, and, unless some error comes to light subsequently to falsify this assumption, the attainment of an "agreed" Trial Balance is usually looked upon as practically conclusive proof of the accuracy of the books.

A Trial Balance is usually prepared at the end of any given trading period (*e.g.* at the end of a half-year or year), although, in some commercial concerns, where special circumstances exist to render such a course advisable, monthly, fortnightly, or even weekly "balances" are effected. In an ordinary small trading concern, however, "balancing" frequently coincides only with the end of the trading period.

Prior to the preparation of a Trial Balance the totals of all the Journals (*e.g.* "Sales," "Purchases," etc.) should be compiled and posted to their respective Ledger accounts, although, in practice, this is not always done in cases where a Trial Balance is prepared at a date other than the end of a fixed trading period. If these Journal totals are not actually posted in the Ledger they must be taken into the Trial Balance as if they had been so posted. In view of the fact that the Cash Account is a Ledger account, bound up separately, the balance of the Cash Book must also, of course, be included in the Trial Balance. The same remark applies to the balance of the Petty Cash Book, in cases where the latter has been kept upon the lines laid down in Chapter IV.

A specimen Trial Balance is appended, the figures contained in which have been subsequently used as a basis for the preparation of the Trading and Profit and Loss Accounts, illustrated later on in this chapter, and for the Balance Sheet explained in the following chapter.

THOMAS ROBINSON.

TRIAL BALANCE, December 31, 1908

Ledger Folio.	Name of Account.	Dr.			Cr.		
5	Capital Account				2,054	16	1
9	Freehold Premises	2,700	0	0			
16	Stock (Jan. 1, 1908)	1,294	15	0			
31	R. Wilson & Co.	715	3	1			
61	Browning Mfg. Co., Ltd.				1,024	13	9
24	Purchases Account	6,032	17	4			
84	Sales Account				9,846	12	4
121	Returns Inward	36	13	7			
26	Discounts allowed	104	3	9			
49	Bills Receivable	3,760	0	0			
82	Bills Payable				1,735	10	0
201	Salaries	437	10	2			
97	General Expenses	315	14	6			
142	Rates and Taxes	180	4	9			
187	Fixtures and Fittings Account	125	0	0			
47	R. Buckley (Loan Account)				3,000	0	0
62	Interest Account	150	0	0			
C.B.							
114	Cash at Bank	895	6	11			
114	Cash in Hand	14	3	1			
		£17,061	12	2	£17,061	12	2

NOTES.—The value of the Stock on hand on December 31st, 1908 = £426 17s. 2d.

Expenses due December 31st, but not yet paid = £10.

10 per cent. depreciation is to be written off the Fixtures and Fittings Account = £12 10s.

It will be observed that the total Debit and Credit balances appearing in the above Trial Balance agree, and, as indicated above, an inference as to the probable correctness of the work consequently arises.

The two sides of a Trial Balance may disagree by reason of one or more errors of varying kinds; when the totals of the Debit and Credit balances fail to agree, the cause of such want of agreement should always be sought for before proceeding further with the book-keeping. The author has known an apparent discrepancy of twopence cover errors of a quite serious amount.

In extreme cases it is sometimes almost impossible to obtain a Trial Balance the two sides whereof agree, and in such event, in practice, an agreement is sometimes forced by making a one-sided entry in some Ledger account, preferably in the "Suspense" or "Differences" Account. Such a proceeding, however, is not to be resorted to in any save extraordinary circumstances, and, even in these cases, it must always reflect upon the

character of the book-keeping, and is an entire departure from the strict principles of Double Entry. Given time, patience, and accuracy, every Trial Balance *can be made to agree* legitimately in the ordinary manner.

In seeking for the error which has caused any particular Trial Balance to disagree, the book-keeper should first satisfy himself that the Trial Balance itself has been correctly compiled from the Ledger, and that its extraction and addition are correct. If this examination fails to disclose the cause of the difference, the error must be sought for in the Ledger itself, and in the books of original entry.

If any transaction has been entered twice on the Debit side of accounts in the Ledger instead of, as should have been the case, on the Debit side of one account and on the Credit side of another account, the Trial Balance will obviously differ by twice the amount of the item; similarly, if an entry has been posted on the correct sides in the Ledger, but for differing amounts, it will be impossible to make the Trial Balance agree (*e.g.* a credit entry in the Cash Book of £174 11s. 10d. posted incorrectly to the debit in the Ledger as £174 1s. 10d. will produce a difference of 10s. on the Trial Balance).

Again, if any addition, either in the Ledger or in any book of original entry, be incorrectly made, it will affect the correctness of the balance appearing on the relative Ledger account, and hence cause disagreement in the Trial Balance. A frequent cause of disagreement in the Trial Balance is the fact that some item, or items, remain unposted. Errors of this kind should, however, be easy of detection, as the space opposite the item provided for the entry of the posting folio remains blank. Should, however, the Ledger reference have been inserted without the completion of the posting, nothing short of an exhaustive checking of the postings for the period will discover the omission.

For errors such as those described above it must be the task of the book-keeper to seek, and, in extreme cases, he may even find it necessary to follow through every posting appearing in his Ledger and books of original entry, and to verify every addition. The work entailed may be laborious and, indeed, almost prohibitive, but no reasonable basis of certainty as regards the correctness of the books can be attained until the Trial Balance has been brought to agreement.

Such an error as the debiting or crediting of any particular item on its correct side in one Ledger account instead of in another (*e.g.* the crediting of £100 received from A. Roberts to the account of J. Roberts & Co.) will not cause the Trial Balance to disagree; such errors will only become apparent as the result of a careful scrutiny of the Ledger accounts, or through complaints from customers of the inaccuracy of the statements rendered to them.

✓ The Trading and Profit and Loss Accounts

Having agreed the Trial Balance of any particular set of books the next step towards a final statement of the trader's financial position is the ascertainment, by means of a Trading Account and a Profit and Loss Account, of the net result of the trading for the period, as regards the profit made or the loss sustained.

It has already been stated (Chapter V) that the purchases, sales, and other items which go to form the Trading Account appear, in the modern Ledger, in separate accounts. It has also been explained that it is necessary that items of this nature should be brought together at the end of the period in a combined account, called a

✓ Trading Account

The Trading Account contains, in summarized form, all the trader's transactions, occurring throughout the trading period, in the commodities in which he deals. Upon the *debit* side of the account appear the opening Stock of goods on hand (*i.e.* the stock with which the trading period was started), the Purchases made during the period at cost price, and occasionally the analogous items of Returns Inwards when such have occurred. It must, however, be pointed out that the Returns Inwards appear more frequently, and more suitably, upon the credit side of the Trading Account as a *deduction* from the Gross figure of the Sales for the period rather than upon the debit side, as, so to say, re-purchases of goods; this treatment, moreover, is theoretically correct, as Returns of this nature are very different from Purchases of goods undertaken by the trader upon his own initiative, and should not therefore appear as such.

In cases also where Returns Inwards have been made by customers, the total sales for the period will be overstated if they are shown in the trading account at the

figure they would have reached had no Returns taken place.

Upon the *credit* side of the Trading Account appear the Sales (usually the net figure after deducting Returns). Returns Outwards may occasionally be met with, in manner analogous to the Returns Inwards, set out upon the credit side of the Trading Account as if they resembled sales of goods sent back to the party from whom they were bought, but, in this case, also, it is preferable to show them as a *deduction* from the "Purchases" figure appearing on the debit side of the account. The reasons for this procedure will be obvious, and are similar to those which apply in the case of Returns Inwards.

When the foregoing items have been incorporated in the Trading Account it remains, (a) firstly to include in the account the ascertained value of the *Stock of goods on hand* at the end of the trading period, and (b) secondly to ascertain the *Gross Profit* which has accrued.

The closing stock is credited, at the amount at which it has been valued, in the Trading Account, and is debited to the Stock Account by means of a Journal entry (see p. 76 and the note on p. vi).

The form of the Trading Account compiled as indicated above is the simplest form in use, and is applicable to such businesses as sell goods in practically the same state in which they acquire them. The student must, however, understand that in practice he will find, in many cases, that the Trading Account will contain various items in addition to those enumerated above. The object of a properly prepared Trading Account should be to show the *gross profit* made upon the amount realized for the goods sold, after charging the actual cost of rendering such goods marketable. It is impossible to dogmatize upon so contentious and wide a question as that which is raised when determining the nature of the items which should actually appear in a Trading Account, and it must be acknowledged that considerable difference of opinion exists in expert circles upon the matter. It will be clear, however, that in many cases Carriage, Manufacturing Wages, Duty, Freight, and items of this nature, forming, as they practically do, part of the cost of the goods sold, are actual and essential charges before the true gross profit upon handling the goods of such businesses can be arrived at.

In the opinion of the author it is not advisable to make

any pedantic endeavour to enlarge the charges debited in a Trading Account. In his opinion, the items charged should be confined to those which represent the direct cost of production, and the account should be prepared on broad and simple lines as far as possible, and maintained upon a consistent basis, so that useful comparisons may be available from year to year. A sample of an efficient Trading Account for a manufacturing business in illustration of these views is as follows—

JAMES SMITH.

TRADING ACCOUNT for the Year ended December 31st, 1908

1908.		£	s.	d.	£	s.	d.	1908.		£	s.	d.	£	s.	d.
Jan. 1	To Stock (Initial)							Dec. 31	By Sales						
Dec. 31	„ Purchases								„ Less Returns						
„ 31	„ „ Less Returns							„ 31	„ „ Stock (Final).						
„ 31	„ „ Manufacturing Wages														
„ 31	„ „ Carriage														
„ 31	„ „ Balance carried to Profit and Loss Account, being Gross Profit for the year....														

When all the preliminary steps enumerated above have been effected, it will be found, in an ordinary case, that the total of the items appearing on the credit side of the Trading Account is in excess of the total of the various debits to the account; such difference represents the trader's "**Gross Profit**" for the period. The "**Gross Profit**" made on any particular article is the excess of the selling price over the cost price of the article dealt in, and the gross profit for a given period represents the amount by which the total of the proceeds of the sales for the period exceeds the total cost of producing the articles sold. Out of this gross profit the trader has to pay the various expenses incurred in carrying on his business, and the final balance remaining, after the deduction of such expenses, represents his "**Net Profit**" for the period.

The Gross Profit shown upon the Trading Account is consequently transferred to the trader's Profit and Loss Account immediately upon its ascertainment (for specimen Journal entry, see page 76), and, in this Account, it is subjected to the deduction of all the working expenses

incurred by the trader in order that the actual Net Profit derived from carrying on the business may be accurately arrived at.

It occasionally happens that the total credits (for Sales and closing Stock) in the Trading Account are less in amount than the debits (for Purchases and opening Stock). When this happens it indicates that the trader has not only made no Gross Profit on his goods, but that he has made a **Gross Loss**; or, in other words, that he has been disposing of his goods at a less price than they have cost him. Obviously such an occurrence will be rare, and, when met with, will probably be found to be due to some special circumstance, such as a sudden fall in the price of the articles dealt in at a time when the trader was overstocked with goods, or the unexpected alteration of the customs duty on the raw materials used by the trader in manufacturing his goods. In cases where a Gross Loss appears on the Trading Account it is transferred to the Profit and Loss Account, as in the case of a Gross Profit (the requisite entry being a credit to the Trading Account and a Debit to the Profit and Loss Account). The Gross Loss on trading is then augmented by the various debits for working expenses, and the other charges against the business, until a total figure representing the **Net Loss** for the period has been built up.

The Trading Account (simple form) arising out of the specimen Trial Balance given on page 93 is appended, and will be found to exemplify the principles laid down above.

TRADING ACCOUNT for the Year ended December 31st, 1908

Dr.				Cr.			
1908.		£	s. d.	1908.		£	s. d.
Jan. 1	To Stock on hand	1,294	15 0	Dec. 31	By Sales.....	9,846	12 4
Dec. 31	„ Purchases.....	6,932	17 4		Less Returns:		
„ 31	„ Balance, being Gross Profit for the year, carried to the Profit and Loss Account..	2,009	3 7		Inwards	36	13. 7
				„ 31	„ Stock on hand.....	9,809	18 9
						426	17 2
		£	10,236 15 11			£	10,236 15 11

Having ascertained, by means of the Trading Account, the amount which represents the *Gross Profit* earned by the business, there remains, as the next step, the accurate assessment of the amount of the *Net Profit* which may

be regarded by the trader as the actual income earned by the business during the period under review.

Lord Justice Lindley said, during the course of a much quoted case, "the word 'profit' is by no means free from ambiguity," nor have the many definitions of the word offered by various political economists afforded much practical assistance to the student.

The question "What is profit?" is a large one, and of great interest, but the many considerations involved are far too complex for the scope of this treatise. And, after all, the student, at this stage, will probably be wise to rest content with the broad commercial acceptance of the term as expressed by Mr. Justice Kekewich that "profit is the sum which is ascertained by the taking of a proper account of what has been made by trading," in other words, Profit may be broadly stated to be the amount by which the Capital of a business is increased during any given period by reason of the business transactions effected during that period. In order to ascertain this amount it is necessary to prepare a

Profit and Loss Account

The Profit and Loss Account of a trader, and, indeed, of any business venture, is the statement wherein the various items of profit and revenue on the one hand, and all the losses and expenses incurred on the other hand, are *collected and offset*, the one class against the other—the simple rule to remember, in compiling such an account, being—*debit all the losses, credit all the gains*. The resulting balance of this account at the conclusion of this process represents the **Net Profit** or the **Net Loss** arising out of the trading operations for the period under review.

According to modern practice, and as has been, previously explained, separate Ledger accounts are opened at the beginning of a trading period for each type of "profit" or "expense," and it is to these accounts that the individual items of this nature occurring throughout the trading period have been posted. At the end of the period all these subsidiary "profit" or "expense" accounts are closed by means of transfers of the balances appearing on them to the combined "Profit and Loss Account." Fresh subsidiary accounts under the same headings are then opened in order to record the "profit."

or "expense" items occurring in the succeeding trading period. Provisions and Reserves, for outstanding expenses and other items, are carried forward in the particular "profit" or "expense" accounts to which they relate at the end of a trading period, in order to avoid the unnecessary trouble of opening numerous special Reserve Accounts for the various individual items; this procedure, however, does not affect the main principle that the balance of all "loss" and "profit" accounts must be transferred at the end of the trading period to the appropriate sides of the combined "Profit and Loss Account."

The practice of carrying forward reserves for losses or gains appears to create some confusion in the minds of many students, and furnishes a cause of frequent error in examination exercises. It would seem advisable, therefore, to deal with the general methods employed in detail.

When it is desired to make a provision for a debt incurred but not yet paid, a *debit* entry, representing the expense incurred, is made in the appropriate Expense Account for the amount owing. This entry is made immediately below the last debit appearing in the account. A *credit* entry for the same sum is made simultaneously in the same Expense Account, at a short distance down the page, in order that it may form the first entry in the Expense Account for the ensuing period. As the Ledger account has to be closed later on, it is necessary to make this Credit entry at a sufficient distance below the level of the existing entries to permit of the insertion of the necessary transfer entry to the Profit and Loss Account, and the totals of the account on either side, together with the customary transverse lines across the money columns.

This principle is illustrated by the following example.

Example.—In the "Repairs Account" of a trader for the year 1908 the following payments appear as debits, viz. March 31st, £32 14s. 6d., September 26th, £17 4s. 2d. On December 31st (the closing date of the trading period) the trader owes, to various contractors, small sums for repairs effected during the year but not yet paid for, amounting in all to £10 6s. 9d.

The most economical and effective way of incorporating in the Repairs Account the £10 6s. 9d. owing at the end

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of the period is by means of a "Reserve" (or "Provision"), as under—

[illegible]

NOTE.—It will be obvious to the student that, in extracting the Trial Balance of the trader's books, it will be necessary to schedule "Repairs Account" in the *debit* column at £60 5s. 5d., and to enter the £10 6s. 9d. in the *credit* column as a Sundry Creditor.

It will be noted that in the above example the amount of £10 6s. 9d. owing at the end of the year is *debited* prior to the ruling off of the account (the item is consequently incorporated in the total of £60 5s. 5d. transferred to the Profit and Loss Account for the year), and the same amount is *credited* below the ruling off of the account as a Reserve (*i.e.* a "liability") to be satisfied in due course in the year following. The effect of this treatment is that when the amounts thus reserved for are actually paid in the new year, the necessary Credit entry in the Cash Book can be posted direct to the Debit of the Repairs Account in the Ledger in the usual way, in company with all similar expenditure incurred in the new year.

Instead of bringing down the £10 6s. 9d. as a Reserve, or credit balance, on the Repairs Account, it would, of course, have been possible to open a "Sundry Creditors" Account in the Ledger for the accommodation of this type of item. This is a method involving more care and labour than the practice explained above. Such a course necessitates special care that the cash payment, when made, shall be posted to the Debit of the "Sundry Creditors" Account, and *not* to the "Repairs" Account; or, if the cash entry is posted direct to the Debit of the Repairs Account, a re-transfer from the "Sundry Creditors" Account to the

"Repairs" Account of the amount set aside becomes essential. In either case the necessary adjustment is not unlikely to be overlooked.

The example previously given is that of a Reserve made in order to provide for a specific item of "Expense" incurred, but not yet paid, at the date of balancing, and it will be obvious to the student that many other circumstances may call for the creation of Provisions and Reserves in a similar manner, *e.g.* Reserves for discounts allowable and for losses arising from the failure of debtors, and also, on the other hand, it may be necessary to create Reserves for profits earned but not yet received, as well as for Expenses incurred but not yet paid, *e.g.* Reserves for rents due to the trader but not yet received by him, and Reserves made for profits estimated to have been made upon foreign shipments, the statements of the realization of which have not yet been finally adjusted.

There is one kind of loss which is, unfortunately, only too common in the experience of most traders, viz. the loss arising out of the insolvency of debtors, and as the methods of providing for losses of this character differ in commercial practice, and appear to present special difficulties to many students, it is worth while to consider them in some detail.

In an ordinary trading business the whole body of book debts outstanding at any given date may generally be divided into three classes, viz. (1) those which are expected to be duly paid (in other words, those which are "good"), (2) those which are wholly irrecoverable (in other words, those which are "bad"), and (3) those of which there is possibility, but not certainty, that they will be paid either in full or in part, and which are classed as "doubtful."

Upon the realization of "good" book debts the question of loss obviously does not arise.

Book debts which are known to be wholly irrecoverable (*i.e.* "bad") must be written off on or before the date of balancing the books, by means of an entry *crediting* the individual debtor's Personal Account with the amount of the balance owing by him, and *debiting* an account entitled "Bad Debts" with a like amount. The balance appearing upon such "**Bad Debts Account**" must, at the date of the preparation of a Profit and Loss Account, be debited, in one total, as a loss in the latter account. In this way debts which are wholly bad become cancelled in

the trader's ledger, and are duly charged against the profits of the undertaking.

There remain to be considered those book debts for which, for one reason or another, it is inadvisable to anticipate payment in full, but which are not, so far as can be foreseen, entirely hopeless, or, in other words, debts which may be reasonably expected to be paid, at least in part, at some future date.

Two methods of assessing the estimated loss on this kind of debt exist; one practice is to carefully examine, in detail, all the debtors' accounts outstanding in the trader's Ledger with the assistance, if necessary, of some official conversant with the condition of such accounts, and deciding *seriatim* which portions of individual debtors' balances will probably prove to be irrecoverable, and consequently need to be provided for out of current profits. For the total amount of the expected loss thus arrived at the necessary reserve can then be made. An investigation upon these lines, in order to ascertain the *partly* irrecoverable book debts for "reserve" purposes, can be made simultaneously with such examination as is needful to ascertain the *wholly* irrecoverable balances in order to write them off to the "Bad Debts Account."

For the total reserve thus deemed needful a Journal entry must be passed, *debiting* the Profit and Loss Account and *crediting* the "**Reserve for Bad and Doubtful Debts Account.**"

An alternative method, and one which is simpler and far more common, especially where the debtors' balances are very numerous, is to set aside, in each trading period, as a Reserve for Bad and Doubtful Debts, a fixed percentage (*e.g.* 5 per cent.) of the total debtors' balances remaining after all the wholly "bad" debts have been written off to the "Bad Debts Account."

In this case again the entry required in order to create the Reserve is a *debit* to the Profit and Loss Account, coupled with a *credit* to the "Reserve for Bad and Doubtful Debts Account."

The "Reserve" thus raised for Bad and Doubtful Debts (*i.e.* for debts which are not yet considered to be wholly irrecoverable) at any particular date of balancing should be carried forward in the books until the next date of balancing, when its sufficiency to cover the estimated loss on the debts outstanding at this *second* date of balancing will be reconsidered. At such second date

of balancing the same process of writing off, direct to the Bad Debts Account, all wholly irrecoverable balances is again effected, and, either by examination of the remaining debtors' balances then outstanding, or by reserving a fixed percentage upon them the amount of the "Reserve for Bad and Doubtful Debts" requisite at the second date of balancing is again arrived at. If the Reserve required at the second date of balancing exceeds the Reserve which was made at the first date of balancing (which reserve will already be standing in the books) a further Reserve for the excess must be made out of the current profits; conversely, if the Reserve required at the later date be less than the Reserve which is at that date already standing as a *credit* balance upon the books the excess must be transferred to the credit of the Profit and Loss Account.

The methods explained above are illustrated in the subjoined example, in which the provision for Bad and Doubtful Debts (as distinguished from Bad Debts wholly written off) is placed at 5 per cent. upon the total of the debtors' balances left upon the trader's books after writing off all actual bad debts. The reserve for Bad and Doubtful Debts built up during the years 1906 and 1907 is greater than is needed for the year 1908, and a re-transfer to the Profit and Loss Account consequently becomes necessary.

Example.—The following details as to Bad and Doubtful Debts are extracted from A. B.'s books.

It is required to show the entries involved in the following accounts, viz. (1) *The Bad Debts Account*, (2) *The Reserve for Bad and Doubtful Debts Account*, (3) *The Profit and Loss Account*.

December 31, 1906. Bad Debts to be written off C. D., £60;
E. F., £95, both being wholly irrecoverable.

Five per cent. is to be reserved for Bad and Doubtful Debts on £1,100, being the total amount owing by the debtors then outstanding.

December 31, 1907. Bad Debts to be written off C. H., £10;
I. J., £75.

Five per cent. is to be reserved for Bad and Doubtful Debts on £2,500, this being the total amount owing by the debtors then outstanding.

December 31, 1908. Bad Debts to be written off K. L., £60;
M. N., £50.

Five per cent. is to be reserved for Bad and Doubtful Debts on £1,500, this being the total amount owing by the debtors then outstanding.

PROFIT AND LOSS ACCOUNT

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Dr.		BAD DEBTS ACCOUNT				Cr.			
1906. Dec. 31	To C. D. debt written off.....	£	s.	d.	1906. Dec. 31	By Transfer to Profit and Loss Account.....	£	s.	d.
" 31	" E. F. debt written off.....	60	0	0			155	0	0
		95	0	0					
		£ 155	0	0			£ 155	0	0
		<hr/>						<hr/>	
1907. Dec. 31	To C. H. debt written off.....	10	0	0	1907. Dec. 31	By Transfer to Profit and Loss Account.	85	0	0
" 31	" I. J. debt written off.....	75	0	0					
		£ 85	0	0			£ 85	0	0
		<hr/>						<hr/>	
1908. Dec. 31	To K. L. debt written off.....	60	0	0	1908. Dec. 31	By Transfer to Profit and Loss Account.....	110	0	0
" 31	" M. N. debt written off.....	50	0	0					
		£ 110	0	0			£ 110	0	0
		<hr/>						<hr/>	

RESERVE FOR BAD AND DOUBTFUL DEBTS ACCOUNT

1908.		£	s.	d.	1906.	£	s.	d.
Dec. 31	To Transfer to Profit and Loss Account, being amount in excess of reserve of 5 per cent. needed for bad and doubtful debts reserve on £1,500, debtors' balances outstanding at this date.....				Dec. 31	By Transfer from Profit and Loss Account, being 5 per cent. on £1,100, debtor's balances at this date.....		
„ 31	„ Balance carried down	50	0	0	1907.		55	0
		75	0	0	Dec. 31	„ Transfer from Profit and Loss Account to complete 5 per cent. on £2,500, debtors' balances outstanding at December 31, 1907.....	70	0
		£ 125	0	0			£ 125	0
					1908.			
					Dec. 31	By Balance brought down, being reserve of 5 per cent. on £1,500 debtors' balances outstanding at this date.....	75	0

If, after any debt has been written off as wholly "Bad," any portion of it is recovered (*e. g.* a dividend of 1s. in the £ under bankruptcy proceedings), the sum so recovered may be credited to the Bad Debts Account of the year during which it is received. It will obviously be impossible to credit the dividend to the debtor from whose estate it comes, as the whole of the balance owing by him will have been written off as a bad debt and his account already closed.

A "Reserve" Account, created for the purpose of providing for the anticipated loss on Bad and Doubtful Debts should, when preparing a Balance Sheet, be deducted from the item "Sundry Debtors"; the net figure thus extended into the principal cash column of the Balance Sheet then represents the actual estimated cash value of the trader's book debts at the date of balancing according to the best information available. Some examination candidates show the Reserve for Bad and Doubtful Debts as a *liability*, and take credit for the gross total of the book debts in their Balance Sheet as an asset; the incorrectness of this treatment will be obvious when it is remembered that the reason for creating the Reserve is to eliminate the irrecoverable portions of various debtors' balances from such as are wholly good, the process of elimination should therefore be clearly exemplified in the Balance Sheet.

When a Trial Balance, which contains a credit balance under the heading "Bad and Doubtful Debts Reserve," is given in an examination exercise, some candidates appear to be at a loss to know how to deal with the item, and frequently enter it as a separate liability in the Balance Sheet, making a fresh reserve of (say) 5% on the amount of the Sundry Debtors, the whole of which reserve they debit, in due course, to the Profit and Loss Account. A credit balance of this nature, when appearing in a Trial Balance, indicates, of course, that, in the previous year, a Reserve was made which was carried forward to the following year, and is now available towards the Reserve which it is necessary to create upon the new total of Sundry Debtors.

A careful examination of the accompanying illustrations will make this point clear to such students as have been confused by the matter.

"Reserves for special purposes," consisting of amounts taken credit for, or set aside for the purpose of accurately

adjusting the profits for a given period, must not be confused by the student with those more or less permanent accumulations of Profits earned but not distributed, which are styled "*Reserve Funds*," or "*Reserve Accounts*."

A "**Reserve Fund**" (or, as some accountants prefer to call it, a "Reserve"), such as appears in the Balance Sheet of a great Banking Company, for instance, is an accumulation of profits which have been retained in the business instead of having been divided "up to the hilt" among the shareholders. Such retention of profits has been made, generally speaking, for the purpose of strengthening the credit of the undertaking, by providing against some unforeseen calamity or contingency, with the object of accumulating working capital, or for some other conservative purpose of a more or less general nature. Some Banking Companies possess Reserves, built up out of past profits, equal in amount to their entire paid-up capital, and many possess in addition "Secret Reserves," obscured in various ways, for the purpose of further enhancing the financial stability of the undertaking, and, incidentally, to ensure that their shareholders may be secured from undue fluctuations of business profits.

Some accountants contend that an accumulation of profits so retained in a business cannot legitimately be styled a Reserve "*Fund*" unless it is offset, on the Credit side of the Balance Sheet, by an equivalent sum of money withdrawn from the resources of the undertaking and invested outside the business in gilt-edged securities. An accumulation not thus independently invested they prefer to designate by the term "*Reserve*" or "*Reserve Account*." The question has been further complicated by controversies as to the practical utility of a Reserve which is not invested in easily realizable outside securities. This, however, is a subject upon which it is, in point of fact, and in practice, impossible to lay down any dogmatic rule for universal adoption; except, of course, in cases where the fund is raised for some specific purpose (*e.g.* the redemption of debentures). The question of the utility of an independently invested reserve, and of the disadvantages of an uninvested reserve, are in reality questions of business finance rather than matters of accounting, and can only be satisfactorily decided after careful consideration of the merits of each individual case. The question, too, of the appropriate designation for an

amount of Profits set aside in a Balance Sheet is merely one of nomenclature, and, after all has been said, any expression which clearly conveys to the mind of an ordinary individual the exact position of affairs is admissible, even though it may not meet with academical approval. The American term "Surplus" and the old-fashioned expression "Rest" (the latter still employed by the Bank of England) are, in the opinion of some experts, preferable to the terms "Reserve" and "Reserve Fund," when used to express the fact that certain profits have been retained in the concern, and are not separately invested.

The scope of this treatise does not permit of any detailed investigation into the niceties of these various significations, nor, in the author's opinion, would it be wise for the student, at this stage, to embarrass himself with too much research into what, after all, is largely a matter of pedantry. The student will, however, be wise to adopt some consistent nomenclature for items of this nature, and it is suggested that, where the Reserve is separately invested, the term "*Reserve Fund*" should be adopted, and that where such Reserve is retained in the business, "*Reserve Account*" is a suitable and convenient term to employ.

Another type of adjustment which constantly needs careful consideration at the time when a Profit and Loss Account is in course of preparation, is the provision necessary for the depreciation of any assets which have decreased in value owing to one cause or another. **Depreciation** is the term employed by accountants to indicate the gradual and inherent diminution both in the value and the usefulness of those assets which, by reason of their nature and uses, cannot endure for ever.

On reflection, the student will comprehend that many of the assets used in a business necessarily partake of this "wasting" nature, and only a few examples need be given. Plant and Machinery "depreciate" through use or obsolescence. Leases, Patent Rights and other grants for a limited period of time obviously become less and less valuable as the date of their expiration approaches. Where an asset thus endures for a limited period only, at the end of which time, or "life," it becomes either absolutely worthless, or practically so, the amount originally expended upon its acquisition must

be "written off" to the Profit and Loss Account in instalments spread over the period during which the asset is of use and benefit in carrying on the business. This charge to the Profit and Loss Account is, in its nature, just as much a necessary business expense as the moneys expended each week on postages or wages. The example of a lease for a term of years, purchased by the payment of a lump sum (or "premium") at the outset, offers perhaps as good an illustration from the student's point of view as can be taken. In such cases, in lieu of a quarterly or other periodical payment of "rent," a premium is paid down in a lump sum at the outset, and the trader obtains in exchange for this premium the right to occupy, for whatever term he has contracted, the premises covered by the lease. The premium, in this case, amounts practically to the present payment of a large sum for rent in advance, and this anticipation of future obligations must obviously, in the trader's accounts, be spread over the period to which it relates. The necessary adjustment is accomplished by debiting the original cost of the lease to an "asset" account ("Leasehold Premises"), and by "Depreciating" the amount at which such asset stands periodically, *i.e.* by transferring periodical portions of the Ledger debit to the Profit and Loss Account.

A lease at the end of its term obviously has no residual value; its worth has disappeared absolutely; but, on the other hand, wasting assets of a more tangible nature, *e.g.* machinery, frequently have a residual value, if only as "scrap-iron," even after their usefulness to the business has ceased to exist. In cases of this kind, the asset must be written down, over its period of usefulness, not necessarily to complete extinction, but to its residual value for sale when no longer useful as a business asset.

The gradual and inherent *wasting* of assets, properly termed "Depreciation," must be carefully distinguished from the mere *fluctuation* in current market values, at any particular time, of assets similar in kind to those under consideration. It frequently happens that, when a trader has purchased an asset for use, its market value, or the current cost of similar articles, falls seriously owing to external causes, *e.g.* land may fall in value owing to the district in which it is situated becoming unpopular, and plant may possibly be obtainable at cheaper rates owing to the introduction of some new invention. These outside

fluctuations are, of course, matters for which a trader *may* provide in his Profit and Loss Account should he so desire; and he will usually be wise to do so if circumstances permit. Recognition of shrinkages in value of this nature may be prudent; it cannot, however, be claimed that they are provisions which *must* be made in the same sense that depreciation proper must be provided for; and, in certain cases, if brought into a trader's accounts, it is even permissible to disregard their effect in considering the business as an entity by itself.

The amount by which any asset is required to be depreciated during the trading period must be made the subject of a *debit* entry either direct to the Profit and Loss Account or to the "Depreciation Account" for subsequent transfer to the Profit and Loss Account. The corresponding *credit* entry is made in the account of the individual asset itself, thereby diminishing its book value by the amount of the "depreciation" sustained, and leaving to be carried forward a sum representing, as far as possible, the true present value of the asset.

In the case of many assets depreciation is effected by writing off an equal sum of money in each year (this sum is usually expressed as a fixed percentage of the original cost), while in cases where increasing expenditure for repairs may be expected, as the asset deteriorates owing to increasing age, it is perhaps more usual to write off each year a certain fixed percentage of the *balance* which, at the end of that year, appears to the debit of the asset account. In this latter method it is obvious that the sum of money debited to the Profit and Loss Account under the head of "Depreciation" grows less year by year, inasmuch as the balance upon the Asset Account is, each year, less than that which was shown in the year before, this *diminishing* charge for depreciation is counter-balanced by the *increasing* charge which will naturally be incurred for repairs as the asset grows older.

The difference between these two methods may perhaps be usefully illustrated by the following example. Let us assume that certain machinery, the original cost of which was £1,000, is depreciated in the books of Firm A. by a fixed annual charge of 20 per cent. on the *original cost*, and, in the books of Firm B., by an annual charge of 20 per cent. of the *diminishing balance* standing from time to time to the debit of the Asset Account; the respective working of the accounts would be as follows:—

112 BOOK-KEEPING AND ACCOUNTS

FIRM A.'s BOOKS.

MACHINERY ACCOUNT

(Depreciation charge, 20 per cent. on the original cost.)

		£	s.	d.			£	s.	d.
1899.					1899.				
Jan. 1	To cost of Machinery.....	1000	0	0	Dec. 31	By 1 year's depreciation.....	200	0	0
					" 31	" Balance carried forward..	800	0	0
		<u>£1000</u>	<u>0</u>	<u>0</u>			<u>£1000</u>	<u>0</u>	<u>0</u>
1900.					1900.				
Jan. 1	To Balance brought down..	800	0	0	Dec. 31	By 1 year's depreciation.....	200	0	0
					" 31	" Balance carried forward..	600	0	0
		<u>£800</u>	<u>0</u>	<u>0</u>			<u>£800</u>	<u>0</u>	<u>0</u>
1901.					1901.				
Jan. 1	To Balance brought down..	600	0	0	Dec. 31	By 1 year's depreciation.....	200	0	0
					" 31	" Balance carried forward..	400	0	0
		<u>£600</u>	<u>0</u>	<u>0</u>			<u>£600</u>	<u>0</u>	<u>0</u>
1902.					1902.				
Jan. 1	To Balance brought down..	400	0	0	Dec. 31	By 1 year's depreciation.....	200	0	0
					" 31	" Balance carried forward..	200	0	0
		<u>£400</u>	<u>0</u>	<u>0</u>			<u>£400</u>	<u>0</u>	<u>0</u>
1903.					1903.				
Jan. 1	To Balance brought down..	200	0	0	Dec. 31	By 1 year's depreciation	200	0	0

FIRM B.'s BOOKS.

MACHINERY ACCOUNT

(Depreciation charge, 20 per cent. on the diminishing balance.)

		£	s.	d.			£	s.	d.
1899.					1899.				
Jan. 1	To cost of Machinery.....	1000	0	0	Dec. 31	By 1 year's depreciation	200	0	0
					" 31	" Balance carried forward..	800	0	0
		<u>£1000</u>	<u>0</u>	<u>0</u>			<u>£1000</u>	<u>0</u>	<u>0</u>

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FIRM B.'s BOOKS (*continued*)—

MACHINERY ACCOUNT

(Depreciation charge, 20 per cent. on the diminishing balance.)

1900. Jan. 1	To Balance brought down..	800	0	0	1900. Dec. 31	By 1 year's depre- ciation	160	0	0
					" 31	" Balance car- ried forward..	640	0	0
		<u>£800</u>	<u>0</u>	<u>0</u>			<u>£800</u>	<u>0</u>	<u>0</u>
1901. Jan. 1	To Balance brought down..	640	0	0	1901. Dec. 31	By 1 year's depre- ciation	128	0	0
					" 31	" Balance car- ried forward..	512	0	0
		<u>£640</u>	<u>0</u>	<u>0</u>			<u>£640</u>	<u>0</u>	<u>0</u>
1902. Jan. 1	To Balance brought down..	512	0	0	1902. Dec. 31	By 1 year's depre- ciation	102	8	0
					" 31	" Balance car- ried forward..	409	12	0
		<u>£512</u>	<u>0</u>	<u>0</u>			<u>£512</u>	<u>0</u>	<u>0</u>
1903. Jan. 1	To Balance brought down..	409	12	0	1903. Dec. 31	By 1 year's depre- ciation	81	18	5
					" 31	" Balance car- ried forward..	327	13	7
		<u>£409</u>	<u>12</u>	<u>0</u>			<u>£409</u>	<u>12</u>	<u>0</u>
1904. Jan. 1	To Balance brought down..	327	13	7					

It will be noticed that the fixed annual charge of 20 per cent. on the original cost (Firm A.'s books) completely extinguishes the Machinery Account at the end of five years, while writing off 20 per cent. of the *diminishing balance*, appearing on the Machinery Account from time to time (Firm B.'s books), does not extinguish the asset over the same period, there being a balance of £327 13s. 7d. remaining at the end of the fifth year.

Two other methods of making provision for the depreciation of assets are found in practice; one resembles the method previously illustrated in the case of Firm A.'s

books, in that an equal amount is written off each year, but this amount is calculated so as to permit of interest being charged periodically to the Asset Account so that some compensating allowance, in the way of interest, may be taken credit for in the Profit and Loss Account upon the capital locked up, for the time being, in the asset.

Under this method the amount to be written off each year is arrived at from fixed tables, and, contemporaneously with each periodical instalment of depreciation written off, a debit entry is made in the Asset Account for interest for the period upon the balance shown at the commencement of the period on the Asset Account. This interest is credited either in the "Interest Account" or in the Profit and Loss Account.

This method of providing for depreciation is suited in the main to assets costing considerable sums at the outset, and continuing in their usefulness for long periods, *e. g.* leases.

The fourth method of providing for depreciation is by means of a policy of insurance. Upon the purchase of the asset, a policy, termed a "pure endowment" policy, or a policy of leasehold assurance, is obtained from an Assurance Company to secure repayment, at the end of the period of the asset's usefulness, of the sum originally expended in its acquisition. A premium, annual or otherwise, must be paid by the person taking out the policy, and, inasmuch as the latter provides for the complete replacement of the asset at its stated period, the premiums paid may be taken to equal, and therefore to satisfy, all the allowance necessary for depreciation. In cases, therefore, where this method is employed, the asset may be left on the books at its original cost price, and the premiums paid may be written off, as and when paid, to the Profit and Loss Account.

The foregoing items, *viz.* Reserves, Depreciation, and Provisions, are perhaps the matters most frequently requiring consideration when the preparation of a Profit and Loss Account is contemplated, and, having thus endeavoured to describe them briefly, the general lines upon which the account itself is compiled may be proceeded with.

In the Trading Account all the balances relating to the trader's transactions in goods (*e. g.* "Sales," "Purchases," "Stock," etc.) are, as has already been explained, combined so as to produce one figure of "Gross Profit" or "Gross

PROFIT AND LOSS ACCOUNT 115

Loss." This "Gross Profit" or "Gross Loss" is transferred to the appropriate side of the Profit and Loss Account immediately upon its ascertainment, and forms the opening entry in the latter account.

All the remaining balances appearing on the Trial Balance which represent either "profits" or "losses" are next sought for, and by means of Journal entries, similar to those outlined on page 76, are transferred from the respective Ledger accounts upon which they appear into the combined "Profit and Loss Account." The resultant balance shown upon the Profit and Loss Account represents the *net result* of the trader's operations for the given period, and is either a "**Net Profit**" or a "**Net Loss**" according as the items upon the right-hand side of the account (viz. the "profits" and "gains") exceed those appearing upon the left-hand side of the account (*i.e.* the "losses" and "expenses"), or *vice versa*.

The figure of Net Profit or Net Loss thus arrived at is transferred, in the case of a sole trader, to the credit of his capital account if a profit, and to the debit of the same account if a loss, and this transfer, appearing in due course in the Journal, forms the final entry for any given period of trading. An example of such a transfer will be found on page 76.

THOMAS ROBINSON.

PROFIT AND LOSS ACCOUNT for the Year

Dr.			ended December 31st, 1908			Cr.						
1908.			£	s.	d.	1908.			£	s.	d.	
Dec. 31	To Salaries...	41	437	12	0	Dec. 31	By Gross Profit brought from the Trading Account	16	2009	3	7	
" "	" General Expenses.....	38	825	14	6							
" "	" Rates and Taxes.....	14	180	4	9							
" "	" Interest.....	8	150	0	0							
" "	" Discounts allowed....	10	104	3	9							
" "	" Depreciation of Fixtures and Fittings	91	12	10	0							
" "	" Balance, being Net Profit for the year, transferred to J. Robinson's Capital Account	45	799	0	5							
			£	2009	3	7			£	2009	3	7

The Profit and Loss Account relating to the specimen Trial Balance given on page 93, viz. that of Thomas Robinson, is set out on page 115. It will be noticed that the items of (1) Outstanding expenses, £10, and (2) Depreciation of Fixtures and Fittings, £12 10s., have been brought into the Account; these two items will, of course, affect the Ledger accounts to which they relate, and will cause corresponding adjustments in the Balance Sheet to be illustrated subsequently.

As will be explained later on in this treatise, it is customary, in modern practice, particularly in the case of limited companies, to present the Profit and Loss Account in three or more sections, in which the various debits and credits are scientifically classified.

EXERCISES.

9A.

1. Define the term "Trial Balance," and explain the method of its construction.

2. If the Debit and Credit sides of a Trial Balance agree in amount is this a conclusive proof that the whole of the book-keeping has been correctly accomplished? If not, to what extent is the construction of a Trial Balance valuable to the book-keeper?

3. What are (1) a "Trading Account," (2) a "Profit and Loss Account" respectively, and what is the difference between them?

4. How should "Returns Inwards" and "Returns Outwards" be dealt with in a Trading Account?

5. Explain the terms: (1) Gross Profit, (2) Gross Loss, (3) Net Profit, (4) Net Loss.

6. Explain how you would provide, in a set of books, for an amount of £10 arranged to be set aside out of profits to cover numerous small expenses incurred prior to the date of balancing, the statements for which have not yet come in.

7. What is meant by "Depreciation"? How would you provide for it in the books of a trader? Discuss alternative methods of providing for this charge.

8. Discuss briefly, and in an elementary way, the subject of "Reserves" and "Reserve Funds." Give the use of these two different terms as indicated for general adoption in this present treatise.

9. Define and explain the terms: "Profit," "Surplus," "Residual Value of a Wasting Asset," "Rest."

10. If a piece of machinery expected to last for five years, bought a year ago for use by A. B., and costing then £1,000, could now, owing to manufacturers of such articles being overstocked, be bought for £500, is it necessary or advisable to allow for such fall in values in the books of A. B.? Give your reasons. What depreciation allowances are necessary?

PROFIT AND LOSS ACCOUNT

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9B.

From the subjoined particulars prepare the Trading Account and the Profit and Loss Account of O. Hyslop for the year ended December 31, 1908.

	£	s.	d.
Stock of Goods on hand, January 1, 1908	3,096	10	0
Sales	35,932	15	1
Purchases	34,364	3	9
Returns Inwards	3,921	0	3
Returns Outwards	2,091	17	10
Wages	425	16	4
Salaries	394	12	1
Postages	38	17	9
Interest received on Deposit Account			
Balance at the Bank	100	4	1
Discounts Received	365	2	8
Discounts Allowed	39	4	2
Rent, Rates, and Taxes	274	9	8
General Expenses	214	0	11
Telephone Subscription	36	10	0
Stock of Goods on hand, December 31, 1908	6,245	17	11

9C.

From the following Trial Balance prepare Trading and Profit and Loss Accounts for the year ended December 31, 1908, incorporating therein the effect of the various provisions required to be made at the end of the year 1908, as set out in the notes on the next page.

R. BRIDGES.

Trial Balance as on December 31, 1908.

	£	s.	d.	£	s.	d.
Capital Account				6,933	1	3
*Stock (January 1, 1908)	1,090	0	0			
*Sales				22,164	1	9
*Purchases	20,764	9	1			
*General Expenses	463	5	1			
*Returns Inwards	364	9	5			
*Salaries and Wages	1,296	5	9			
*Discount				26	9	5
*Banker's Interest and Charges	25	16	4			
Bank Loan				8,000	0	0
Freehold Premises	7,650	0	0			
Leasehold Premises, ten years to run from January 1, 1908	3,250	0	0			
*Income Tax	124	19	5			
Furniture Fittings and Fixtures	694	12	9			
Debtors, A. King	465	9	8			
X W. Jones	392	15	4			
Creditors, R. Stevens				1,001	4	11
J. Brown				341	9	8
Bills Receivable	1,000	0	0			
Cash at Bank	319	4	5			
*Freight and Cartage on goods sold	564	19	9			
	£38,466	7	0	£38,466	7	0

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9c. (continued).

Notes.—	£	s.	d.
* Stock on hand, December 31, 1908, was valued at	4,091	16	11
Write off W. Jones's Debt as irrecoverable	392	15	4
Write 10 per cent. Depreciation off Leasehold Premises	325	0	0
Write 10 per cent. Depreciation off Furniture, Fittings, and Fixtures	69	9	3

9d.

From the following list of balances extracted from the books of V. Roberts, prepare a Trial Balance as on December 31st, 1908.

V. ROBERTS.

Balances, December 31, 1908.

	£	s.	d.
Capital, V. Roberts	2,000	0	0
Purchases	12,465	12	9
Sales	23,149	12	3
Stock (Jan. 1, 1908)	7,264	0	9
Sundry Creditors	2,175	6	11
Bills Payable	3,200	0	0
Furniture and Fixtures	200	0	0
General Expenses	1,264	12	9
Wages and Salaries	729	13	6
Bank Loan (secured by mortgage of Premises)	2,000	0	0
Premises, Freehold	5,000	0	0
Sundry Debts	2,194	13	2
Returns Inwards	32	14	3
Bank Interest and Charges	121	4	9
Mr. C. Roberts, Loan Account (repayable Jan. 1, 1912)	2,000	0	0
Charitable Donations	5	0	0
Printing and Stationery	124	9	6
Discounts Allowed	122	17	3
Discounts Received	4	5	9
Cash at Bank	521	3	4
Cash in hand	3	2	11
Patents and Goodwill	2,000	0	0
Bills Receivable	2,480	0	0

Answers.—

9b. Gross Profit, £2,888 16s. 10d. ; Net Profit, £1,930 12s. 8d.

9c. Gross Profit, £4,037 0s. 2d. ; Net Profit, £800 18s. 8d.

9d. Totals of Trial Balance, £34,529 4s. 11d.

CHAPTER X

THE BALANCE SHEET

It has already been explained, in the preceding chapter, that the first steps necessary for a trader to take towards the ascertainment of his financial position, at the end of a trading period, consist of (1) the preparation of an agreed Trial Balance, followed by (2) the compilation of a Trading Account and a Profit and Loss Account.

By this means the net balance of all the accounts representing "losses" or "gains," or containing elements of loss or gain, are combined, and the net result of this combination, in the shape of profit or loss, is ultimately carried to the trader's "Capital Account." When this process has been completed, the balances still remaining upon the Ledger consist exclusively of (*a*) credit balances known as "**Liabilities**" (ranking "Capital Account" and "Reserve Account" as liabilities), and (*b*) debit balances, or "**Assets**."

In order to ascertain the financial position of the trader at the date of balancing, and after the elimination of all the "Profit and Loss" balances, the liabilities and assets appearing on his Ledger at that date are arranged in the form of a classified schedule or statement called a "**Balance Sheet**." The "Balance Sheet" is, strictly speaking, a second Trial Balance prepared after the closing of the Profit and Loss Account, in which, however, according to commercial practice in this country, the sides upon which the items appear are reversed; consequently the trader's possessions (Assets) are marshalled in the Balance Sheet upon the right-hand (or Credit) side of the statement, while his Liabilities (including his Capital) appear on the left-hand (or Debit) side.

If one is to pursue, with strict consistency, the theory governing the Double Entry system, a Balance Sheet, being merely a transcript of Ledger balances, is, of course, not a Ledger account itself; it is merely a classified statement of the final balances appearing on a trader's Ledger

after writing up his Profit and Loss Account and closing his books for a given period. In accordance with this view, therefore, the contractions "Dr." and "Cr." (debit and credit) should never appear upon a Balance Sheet. As a matter of consistency, also, the prefixes "To" and "By" should be omitted, but, as a matter of practice, they are frequently retained.

In fairness to the student, however, it must be clearly pointed out that many accountants maintain that the Balance Sheet is an *actual account* as between the business and its Debtors and Creditors, including the proprietor, and where this view is held both the contractions and the prefixes mentioned above are generally used.

The object of stating Ledger balances in the form of a Balance Sheet is to convey to the trader himself, or to any person whom it may concern, a clear and concise statement of the trader's financial position in a summarized form.

The term "**Statement of Affairs**" is also applied, under certain circumstances, to an account or statement purporting to disclose the financial position of a business concern or trader. In Bankruptcy proceedings the phrase has a special technical meaning which we need not here discuss. When the term is used in accounting circles, however, it is generally meant to convey the fact that the statement has not been prepared from a set of books kept upon the "Double Entry" system, but from books in which "Single Entry" or other incomplete methods have been employed. The term "Balance Sheet," on the other hand, implies that the facts set out therein convey a concise statement of the financial position under review, as disclosed by a set of books kept upon the Double Entry system. The student should bear this distinction in mind, as it is important.

Although every balance remaining on a trader's Ledger must, of course, be included in his Balance Sheet, it does not follow that in the latter all the Ledger balances are, as in the case of a Trial Balance, stated separately and in detail. It will, in fact, be obvious to the student that such a proceeding would be impracticable. Where, therefore, there exist several Ledger balances of a more or less similar nature, *e. g.* amounts due to or from various creditors or debtors, it is the practice to group such similar Ledger balances together and to include them in the Balance Sheet in one combined total; consequently the amounts due to a trader's trade creditors will usually be

found in his Balance Sheet grouped under the one heading of "**Sundry Trade Creditors**"; the various book debts owing to him at the same date being scheduled in a combined total as "**Sundry Debtors.**"

This process of grouping together Assets or Liabilities of a kindred nature is extended to other possessions and liabilities when marshalled for Balance Sheet purposes. Indeed, it will be obvious that in order that the Balance Sheet may be expressed in as concise, and yet in as lucid a form as possible, some system of grouping and classification must always be inevitable. At the same time, it must be borne in mind, that as is the case with many other useful accounting methods, grouping and classification may be carried to excess in a Balance Sheet. If the Balance Sheet be loosely drawn, items of a dissimilar nature may be erroneously grouped together under a heading which may fail to disclose their real nature in its entirety, and the Balance Sheet, instead of being a lucid statement, may, by this and other misuses, be distorted so as to show a better or a worse financial position than exists in reality. It is therefore necessary that the preparation of a Balance Sheet should be undertaken with care and deliberation, and that the interpretation which will probably be placed upon its component items by an outside observer should be borne in mind. A properly-prepared Balance Sheet should be capable of being understood by any ordinarily intelligent observer, even assuming him to be unacquainted with the details of the particular business in question, and it should convey its story to him in a clear and unmistakable manner. If it fails to comply with these requirements it cannot be claimed as having successfully fulfilled the *métier* of an ideal Balance Sheet.

The Balance Sheets on the following page have been prepared from the Trial Balance set forth on page 93, after the compilation of the Trading and Profit and Loss Accounts set forth respectively on pages 97 and 115.

The student will note that, in these specimen Balance Sheets, the Assets (being the debit balances remaining upon the trader's Ledger) appear on the Credit or right-hand side, and the Liabilities on the left-hand or Debit side.

The space at the author's disposal does not permit of any excursion into the ancient and still smouldering controversy as to the correct side upon which to place

THOMAS ROBINSON.
BALANCE SHEET as on December 31st. 1908

LIABILITIES.		ASSETS.	
£	s.	£	s.
To Thomas Robinson, Capital Account—		By Freehold Premises taken at cost.....	
As on January 1, 1908	2,054 16 1	" " Fixtures and Fittings—	
Add—		As on January 1, 1908	125 0 0
Profit for the year 1908.....	799 0 5	Less—	
Loan Account—		Depreciation at 10 per cent. p.a.	12 10 0
R. Buckley		Stock valued at cost price	
" Sundry Creditors :—		" Sundry Debtors	
Growthing Mfg. Co.....	1,024 13 9	Wilson & Co.....	715 3 1
Barnes	10 0 0	Bills receivable	3,760 0 0
Bills Payable.....	1,785 10 0	" Cash—	
		At the Bank	895 6 11
		In hand	14 3 1
£8,024	0 3	909 10 0	0 3
		£8,024	0 3

THOMAS ROBINSON,
BALANCE SHEET as on December 31st, 1908

[illegible]

the Assets and Liabilities when preparing a Balance Sheet.

The controversy is an interesting one, but at this stage of the student's progress it will be sufficient for him to know that, in the United Kingdom, the practice of placing the Liabilities upon the left-hand side and the Assets upon the right-hand is now practically universal.

It will be noticed that the figures composing the above Balance Sheet have been drawn up or "marshalled" in two alternative forms. The two methods of marshalling the Assets and Liabilities set out therein are those in most frequent use in modern practice. The first example shows the Assets set out in the order of their permanence and unrealizability at short notice. The second example shows the Assets marshalled in the order in which they could be most easily realized.

As will be explained later on, the first example given above exhibits the order in which Assets are marshalled in the great majority of the published accounts of limited companies.* The second method has, however, much to commend it. No dogmatic rule can be laid down upon a matter of this sort, where expert opinions legitimately differ, and the student will be safe in adopting either method, provided he carries it out reasonably and consistently.

The Assets set forth in the second Balance Sheet, as already explained, have been arranged in the order of their realizability, *i.e.* according to the degree of facility with which they could, under ordinary circumstances, be converted into Cash. The most liquid of the Assets shown, *viz.* Cash, has been placed at the head of the statement, as, being cash, it is already "realized," and the other Assets which follow may be taken, in normal circumstances, to be realizable in the order in which they are shown; *e.g.* the Bills Receivable, maturing at fixed dates not far ahead, are taken to be more easily encashed by being discounted on or before maturity, than the amounts owing by the ordinary trade debtors; again, book debts may be taken to be more readily realizable than the

* As a matter of curiosity the author recently divided the published accounts of 49 well-known companies, taken at random, into the two classes mentioned above, with the result that 42 companies were found to have adopted the former of the two methods described, while the remaining seven companies (mostly banks) had adopted the latter principle.

trader's Stock of Goods on hand, and the latter in its turn ranks before the Capital which has been sunk in acquiring the Fixtures and Fittings and Freehold Premises.

When this method of marshalling the Assets is made use of, it should be complemented on the debit side of the statement in which they appear by adopting an arrangement of the Liabilities in the order in which the various creditors could enforce their claims. Under this method the Capital Account would, of course, appear last.

The principle of stating Assets in the order of their realizability is one which may usefully be extended to the Balance Sheets of Banks and kindred financial undertakings. As explained above, it is, of course, a matter of individual opinion and taste as to whether it is wiser to place the most "realizable" or the most "unrealizable" asset at the head of the statement. Whichever method the student adopts he must, however, take care to make sure that the remaining Assets are consistently grouped, according to the order in which they may be ranked as "realizable" or "unrealizable," so that a due succession of convertibility, or otherwise, may be preserved.

It may be stated also that, as a general rule, the more difficult an asset is to realize, the greater will be the loss on its realization if hurriedly effected. The loss entailed by rapidly calling in a large number of trade debts will probably be less, on a percentage basis, than the loss which would ensue if land and buildings or plant and machinery were put up to auction and sold without reserve; further, items as "Goodwill" and "Fixtures," though originally they may have been costly to acquire, may be absolutely useless for the purposes of raising immediate funds. It is upon the wise preservation of a reasonable and adequate proportion of a trader's resources in a liquid form (*e.g.* Cash, Book Debts, and Bills, Receivable), having regard to the amount of his trade creditors and other immediate indebtedness, that the ability of the trader to honour his obligations, and therefore to maintain his commercial credit, must always depend. It would, perhaps, be difficult to over-estimate the benefits which have accrued to traders from the advantages afforded by the system of commercial credit operating in this country. The student cannot too clearly comprehend, however, that every credit operation implies a possible cash transaction. The trader therefore, if he be prudent, whilst making every legitimate use of the advantages

afforded by his commercial credit, will make every wise provision for the cash demands involved by his credit operations.

It is, of course, impossible to give any list or classification of Assets which can lay any claim to be exhaustive, but the following list includes some of the most frequently-occurring types ranged in the order of their realizability and may prove helpful to the student—

- Class I. Cash in hand.
Cash at the Bank.
Consols and other "gilt-edged" securities readily dealt in on the Stock Exchange and capable of immediate encashment.
- Class II. Bank Deposits for short terms.
Securities dealt in on the Stock Exchange for the fortnightly settlements.
Remittances in transit.
Loans on short call (secured).
- Class III. Bills Receivable.
Trade Book Debts.
Outstanding interest.
Calls outstanding (Joint Stock Companies), and other personal obligations capable of being called in at short notice.
Business loans on security.
Loans on mortgage.
Reversions purchased (if transferable).
- Class IV. Stock on hand.
Goods sent out on consignment to other persons for sale.
Work in progress.
- Class V. Land and buildings, (*a*) freehold and (*b*) leasehold, (*c*) in town or (*d*) country.
- Class VI. Plant and Machinery.
- Class VII. Goodwill, Patent Rights, assets or capital expenditure of exceptional nature.
Fixtures and Fittings.
- Class VIII. Obsolete plant and machinery, land in undeveloped districts, "development" and other expenditure of a like nature.
"Preliminary Expenses." (Balance of this account not yet written off.)

In considering a Balance Sheet, the student must be warned against falling into the somewhat common error

of imagining that the items placed on the Credit side of the statement represent of necessity tangible property capable of being readily converted into the exact sums of money placed against each asset. Sufficient has already been said above to indicate that different types of property possess widely differing degrees of realizability, both as regards the time required to convert them into money, and as regards the actual amount likely to be produced by their forced sale. Again, many of the Assets acquired by a trader are frequently suitable for his particular type of business only (*e.g.* plant and machinery of special kinds). Such Assets necessarily fall considerably in market value directly they are ranked, for selling purposes, as "second-hand"; the fact that their money value to an immediate seller has depreciated in this way is a matter quite apart from their cost, or their present value, to the owner for use in a "*going concern*." The student must clearly grasp the fact that this element of the differing values of Assets, when viewed from such widely divergent standpoints, is one which it is neither necessary nor possible to take completely into account when preparing the Balance Sheet of the actual user. Provided always that, by means of adequate provision for depreciation, the Assets are gradually reduced to their residual or "scrap" value at the end of their period of usefulness, market fluctuations may be ignored in the books of an owner for use, and this fact forms one of the instances which exemplify the differences which must always exist between "book" and "market" values.

It would be quixotic, too, in the case of intangible Assets like "Goodwill," to imagine that, in the majority of cases, they are immediately saleable at a price approximate to the figure at which they stand in the owner's books; the monetary sum set out against the asset in the Balance Sheet in these cases represents the "cost" to the owner, or the amount of capital he has expended in this direction, and bears no necessary reference to the amount which the asset would produce if sold.

All that can be wisely claimed for a properly-prepared Balance Sheet is that it discloses a conservative view of the trader's financial position, after making such provisions as are necessary in order to reduce his Assets to their true present value to the trader as the proprietor of a "*going concern*."

No trader's Balance Sheet does or can profess to

represent the financial position which would result if the Assets set out therein were immediately placed upon the market.

In the opinion of the author the student will be wise to accustom himself to refer to the two sides of the Balance Sheet as the "Debit" and "Credit" sides, rather than as the "Liabilities" and "Assets" sides of the statement. A little thought and inquiry will soon demonstrate the fact that the latter and more popular nomenclature is often incorrect. As its name implies, a Balance Sheet is an abstract statement of the debit and credit balances remaining upon the Ledger after the elimination of all the Profit and Loss items. Such a statement, or schedule, may, and in fact does, of necessity often include items which cannot properly be classified as Liabilities or Assets. For example, the Reserve Account and the undivided balance of the Profit and Loss Account will be found on the debit side of the statement; whilst on the credit side may be found the deficiency or loss (if any) for the period, or any expenditure which is unrepresented by any asset, and which is held in suspense, in order that it may be written off over a future period (*e.g.* Preliminary Expenses).^{*} It will be self-evident to the student that in such cases, which are by no means uncommon, the designation "Liabilities" and "Assets" is quite inappropriate.

As has already been indicated, a statement, such as those prepared when a bankruptcy is impending, wherein the Assets are stated as nearly as possible at their "break-up" values, is termed a "Statement of Affairs," and differs widely from a Balance Sheet both in its object and in the manner of its preparation. The student has already been warned that he must not confound statements of this character with a Balance Sheet prepared from a set of books kept upon the Double Entry system.

In the preparation of a Balance Sheet it is always desirable that all Assets, the market value of which is liable to fluctuation, or which are realizable only with difficulty, or which have been acquired *for use*, as distinguished from those acquired for subsequent conversion into money, shall be stated separately and clearly; care should also be taken that the basis upon which the Balance Sheet value of such Assets is arrived at is plainly

^{*} An investigation of the Balance Sheets of unsuccessful companies will furnish the student with illustrations of "Assets" of this type.

indicated. In the specimen Balance Sheet given on page 122, it will be noted that the "Stock on Hand" and "Freehold Premises" are stated as having been "valued at cost price," and that the amount of the depreciation written off the "Fixture and Fittings" is clearly shown; this wholesome practice should be extended to all Assets except in those cases in which the monetary value is practically certain, in order that the Balance Sheet may be freed, as far as possible, from any uncertainties as to the basis of the valuations placed upon the Assets scheduled therein.

The valuation of Assets prior to the preparation of a Balance Sheet frequently presents considerable practical difficulties; it is impossible to discuss so large a question at adequate length in this chapter, but two general rules may be laid down for the guidance of the student, viz.—

1. That Assets held for the purpose of being subsequently converted into money (e. g. Debtors, Bills Receivable and Stock of Goods on hand) should not be stated in the Balance Sheet at any amount which is in excess of their *probable realizable value*, and that, if the latter is below their book value, adequate depreciation must be provided. On the other hand, it may be stated, as a general rule, that it is unwise to write up (or "appreciate") Assets of this description in cases where their market value has temporarily risen above their book value.

Assets falling under this class are frequently termed **Floating or Circulating Assets**. So far as they are available, these Assets, less sundry creditors and other "outside" liabilities, form the **Working Capital** of a business.

2. That in the case of Assets held *solely for use* (e.g. Plant and Machinery, Goodwill, Leases, Patent Rights, etc.), *fluctuations in current market values may be ignored*, and that, provided adequate depreciation is written off the asset in order to reduce it to its residual value at the end of its useful "life," it may be included in the Balance Sheet at its original cost less this necessary depreciation. The basis of valuation should invariably be stated, and, indeed, public Joint Stock Companies are legally bound to state the valuation basis when filing Balance Sheets with the Registrar.

The generic name of Assets of the above class is **Fixed Assets**. The term is not altogether a happy one, as Fixed Assets of some classes are subject to wear and tear. When used in conjunction with Assets, however, the adjective is meant to imply that the Assets so designated are held for the purpose of carrying on the business and earning income, and not for sale purposes. In cases where Fixed Assets decrease in value owing to wear and tear, or other cause, they are also referred to as **Wasting Assets**.

In the strict sense, as explained above, such capital is not of course really "Fixed," composed as it is, for the most part, of Assets subject to wear and tear and other depreciating factors. The legal decisions given in several well-known cases * have apparently relieved Joint Stock Companies from the necessity of providing for the wastage of certain "Fixed" Assets; it will be needless to point out, however, that, from a commercial point of view, a financial policy based upon these lines would be generally condemned as unsound.

Finally, the student must be cautioned against the error, not uncommon among examinees, of heading a Balance Sheet as, *e.g.*, "*for the year ending December 31st, 19..*." A Balance Sheet is a schedule of Ledger balances *as on a certain date*, in contrast to the Profit and Loss Account, which is a statement containing *the transactions for the year* or other period which it covers.

EXERCISES.

10A.

1. Explain the nature of a Balance Sheet. In what respects does it (a) resemble, and (b) differ from, a Trial Balance?
2. Differentiate between a "Balance Sheet" and a "Statement of Affairs."
3. Discuss the order in which the Assets should appear in a Balance Sheet, giving reasons for the method you prefer.
4. Range, in the order of their realizability, the following assets:

* *In re Dovey and Others v. Cory*. Certain comments were made by the Lord Chancellor in this case which seemed to suggest that these decisions might be open to challenge under other circumstances.

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Cash, Freehold Land, Book Debts, Consols, Plant, Balance on Deposit Account with Bankers, Patent Rights, Stock on hand, Work in Progress, Preliminary Expenses, Goodwill.

5. Is the following statement correct? If not, discuss the questions involved: "No asset should be included in a Balance Sheet which is not capable of conversion into money, and no asset should be included at any value above that which it would fetch if immediately sold."

6. Explain the nature of, and the difference between, "Floating" and "Fixed" Assets.

7. What is "Working Capital"?

8. Upon what basis should "wasting assets" be valued for inclusion in a Balance Sheet? Illustrate your answer by dealing with the case of a Printing Machine costing £50 with a life of five years, being worth at the end of that time £5 as scrap-iron. The charges for repairs for the five years are as under: First year, £1; second year, £3; third year, £5; fourth year, £5; fifth year, £6 10s.

10b.

From the following particulars prepare the Balance Sheet of Charles Wilkinson, as on December 31, 1908, showing his capital at that date, and ranging the items on either side in the order of their realizability, or as they become payable.

	£	s.	d.
Stock of Goods on hand, December 31, 1908	11,090	16	5
Sundry Debtors		1,078	13 0
Freehold Premises (valued at cost)	3,000	0	0
Bills Payable	5,075	10	0
Furniture and Fixtures, at cost, less depreciation at 10 per cent. per annum		615	17 9
Sundry Creditors on Open Accounts	1,204	7	6
Creditor for Loan for working capital, H. Henry (repayable January 1, 1911)	13,000	0	0
Bank Overdraft, London and Western Bank, Ltd., Cardiff		18	17 6
Cash in Hand		32	17 9
Goodwill (at cost)	2,000	0	0
Stock of Stationery in Hand		15	4 9
Bills Receivable in Hand	1,765	0	0
Balance with the Union Banking Co., Ltd., London—On Current Account	189	15	6
On Deposit Account (at 7 days)	1,000	0	0
Sundry Creditors for expenses due but not paid		37	16 5
Consols, £1,000 at 83	830	0	0

10c.

From the following Trial Balance prepare the Trading Account and the Profit and Loss Accounts for the year ended December 31, 1903, and a Balance Sheet as on that day, incorporating therein the adjustments set forth in the footnote.

THE BALANCE SHEET

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O. JONES.

Trial Balance as on December 31, 1908.

	£	s.	d.	£	s.	d.
Bills Payable				1,500	0	0
Carriage on Purchases	462	15	1			
Salaries	255	0	0			
Travelling Expenses	14	6	2			
Rent, Rates and Taxes	38	0	5			
Advertising	463	16	2			
Stock (January 1, 1908)	2,095	10	0			
Purchases	8,962	5	0			
Returns Inwards	364	9	8			
Returns Outwards				862	15	9
Leasehold Land and Buildings	1,000	0	0			
Furniture and Fixtures	240	0	0			
Patent Rights	310	0	0			
Sales				11,046	3	9
Bills Receivable	750	0	0			
Sundry Trade Creditors on Open Accounts				6,049	12	4
Sundry Trade Debtors on Open Accounts	7,392	16	5			
Machinery and Plant	105	10	0			
Carriage and Packing Expenses (Sales)	34	6	0			
Electric Light	12	4	10			
Telephone Subscriptions	24	5	0			
Discounts received				62	9	5
Discounts allowed	179	4	6			
North-West Banking Company, Current Account	251	4	4			
North-West Banking Company, Deposit Account	500	0	0			
Petty Cash, Balance in Hand	10	0	0			
Office Cash, Balance in Hand	38	9	4			
Fire Insurance Premiums	16	9	4			
Capital Account (O. Jones)				4,000	0	0
	£23,521	1	3	£23,521	1	3

Notes.—

- | | £ | s. | d. |
|-------------------------------------------------------------------------------------------------------------------|-------|----|----|
| (a) The value of the Stock on hand, December 31, 1908, was | 2,879 | 16 | 10 |
| (b) Reserve 5 per cent. on the Sundry Debtors for Bad and Doubtful Debts. | | | |
| (c) Write off the Patent Rights | 50 | 0 | 0 |
| (d) Write off from the "Leasehold Premises Account" one year's depreciation on £1,000 at 5 per cent. p.a. | | | |
| (e) Carry forward the unexpired portion of "Fire Insurance Premiums (£169s. 4d.)" paid in advance, viz. | 5 | 10 | 6 |
| (f) Write 10 per cent. depreciation off the Machinery and Plant Account. | | | |

10D.

The Steel Co., Ltd., began business on January 1st, 1906, with a Capital of £40,000, in 8,000 shares of £5 each, £1 to be paid on allotment, £1 on March 1st, and £1 on June 1st. Freehold Land, value £2,500, was bought and Buildings erected at a cost of £11,250. There was also purchased Plant, £3,750; Office Furniture, £175; and Preliminary Expenses amounted to £375. The works were finished on June 30th, and all liabilities thereon were paid at that date. The following were outstanding as arrears, viz.—On Allotment, £175; on first call, £280; and on second call, £345. Cash in Bank amounted to £5,150. Make the necessary entries for the above, and prepare a Balance Sheet as at June 30th. On December 31st Stock amounted to £7,800. From the following Trial Balance prepare Trading and Profit and Loss Accounts and Balance Sheet, after depreciating Freehold Buildings $1\frac{1}{2}$ per cent. per annum, Plant 10 per cent. per annum, Furniture $7\frac{1}{2}$ per cent. per annum, and Preliminary Expenses one-sixth.

	£	s.	d.	£	s.	d.
Freehold Land	2,500	0	0			
Freehold Buildings	11,250	0	0			
Plant	3,750	0	0			
Office Furniture	175	0	0			
Wages	4,000	0	0			
Preliminary Expenses	375	0	0			
Calls in arrear, viz.—Allotment	180	0	0			
First call	100	0	0			
Second call	120	0	0			
Purchases	12,875	0	0			
Salaries	2,200	0	0			
Directors' and Auditors' Fees	475	0	0			
Stationery	120	0	0			
Office Expenses	180	0	0			
Rates, etc.	60	0	0			
Sundry Debtors	2,940	0	0			
Bank	3,125	0	0			
Capital				24,000	0	0
Sales				17,500	0	0
Creditors				2,375	0	0
	<u>£43,875</u>	<u>0</u>	<u>0</u>	<u>£43,875</u>	<u>0</u>	<u>0</u>

Answers.—

10B. Capital, £2,281 13s. 9d.; Balance Sheet Totals, £21,618 5s. 2d.

10C. Gross Profit, £2,903 16s. 7d.; Net Profit, £1,453 11s. 3d.;
Balance Sheet Totals, £13,003 3s. 7d.

10D. Balance Sheet Totals—

June 30th, £23,200 0s. 0d.

Dec. 31st, £31,574 1s. 3d.

Gross Profit, Dec. 31st, £8,925 0s. 0d.

Net Profit, Dec. 31st, £5,549 1s. 3d.

CHAPTER XI

A MERCHANT'S ACCOUNTS

IN order to practically illustrate the working of the books already described in the preceding Chapters, and for the purpose of further explaining their combined use as a complete system, the subjoined example has been worked out in detail in the exact manner in which the items would appear in an actual set of books.

The transactions upon which the illustration is based are assumed to be those of J. Harris, a merchant dealing in two classes of goods, viz. Coffee and Tea. In order that the transactions in the two types of goods dealt in may be kept apart from each other, and in order that the gross profit on either class of merchandise may be separately ascertained in the Trading Account, the principle of analysis columns has been made use of in the "Sales," "Purchases" and "Returns" Books, as well as in the Stock and Trading Accounts in the Ledger. The dealings in merchandise, and certain of the other transactions given in the Example, are less numerous than would be the case in an ordinary mercantile business, but they have been so curtailed in order to avoid the unnecessary repetition of entries of a precisely similar character, *e. g.* the illustration of how to record a single sale or return is deemed to be sufficient to indicate to the student how all sales and returns, of a precisely similar character, should be passed through the books.

The books illustrated are as under, and the initial letters, appended to the names of the various books of original entry, are used, in lieu of folios, in the Ledger in order to indicate the particular book in which the original entry is to be found.

CASH BOOKS	{	Cash Book (with columns for "Bank,"	C.	
		"Office Cash," and "Discount")		P. C.
		Petty Cash Book		

JOURNALS	(Journal (Proper)	J.
	Purchases Book (analyzed form)	P.
	Sales Book (analyzed form)	S.
	Returns Inwards Book (analyzed form)	R. I.
	Returns Outwards Book (analyzed form)	R. O.
	Bills Payable Book	B. P.
	Bills Receivable Book	B. R.
LEDGER	(Ledger containing—	
	(a) Analyzed accounts for Stock, Sales, Purchases, Returns Inwards, Returns Outwards, and Trading Account, to correspond with the classification appearing in the relative books of original entry.	
	(b) Other Ledger accounts in the ordinary simple form.	

A **Trial Balance** is appended, and also a **Balance Sheet** showing the financial position at the end of the Trading period.

The Example is as under—

J. Harris commenced business on March 1, 1909, with the following Assets and Liabilities—

	£	s.	d.
Assets.			
Cash at the London & Eastern Bank, Ltd.....	2,049	16	6
Stock of Goods on hand—			
Coffee : 1,626 bags valued at 50s. each	4,065	0	0
Tea : 120 chests valued at 40s. each	240	0	0
Lease of Warehouse and Land appertaining thereto			
having 15 years to run, valued at	1,500	0	0
Debtor : Francis & Co.....	65	10	0
Furniture and Fixtures, valued at.....	120	0	0
Liabilities.			
Wynaad Coffee Co., Ltd.....	2,050	16	5

His transactions for the month of March were as follows—

	£	s.	d.
Mar. 1	Drew from the Bank—		
	1. For Office Cash.	50	0 0
	2. For Petty Cash.....	20	0 0
" 3	Bought from the Produce Importing Co., Ltd., on credit—		
	200 bags of Wynaad Coffee at 50s. per bag.....	500	0 0
	100 chests of S. China Tea at 40s. per chest.....	230	0 0
" 6	Sold to the Northern Stores, Ltd., on credit—		
	500 bags of coffee, medium, at 50s. per bag, less		
	2 per cent. Trade Discount	1,872	0 0
	200 chests of tea at 50s. per chest, net.....	500	0 9
" 9	Paid from Petty Cash—		
	For Envelopes and Letter-paper.	1	4 9
	For Brass Door-plates (debit Furniture and Fix-		
	tures Account)	3	8 6
	For stamps.....	0	15 0
" 10	Accepted the Produce Importing Co.'s draft due		
	March 30, making the same payable by Bankers		
	(London & Eastern Bank, Ltd.)	400	0 0
	Paid them by cheque	315	0 0
	Being allowed discount thereon	15	0 0

A MERCHANTS ACCOUNTS

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		£	s.	d.
Mar. 11	Drew upon the Northern Stores, Ltd., at 3 months' sight, which draft was duly accepted.....	1,600	0	0
" 12	Sold to Francis & Co. on credit— 100 bags of coffee at 60s., less 2½ per cent. Trade Discount.....	292	10	0
" 12	Received from the Northern Stores, Ltd., cheque for And paid the same to the Bank.....	850	0	0
" 12	Allowed the Northern Stores, Ltd. (discount).....	22	0	0
" 13	Paid, from Office Cash, salaries and wages to date.....	12	10	0
" 15	Paid by cheque to the Wynaad Coffee Co., Ltd.....	1,000	0	0
" 15	Being allowed discount by them.....	10	0	0
" 16	Paid from Office Cash for electric light fittings.....	5	7	9
" 17	Sold for cash (placed in Office Cash)— 8 bags of coffee at 60s.....	7	10	0
" 19	10 chests of tea at 60s.....	30	0	0
" 19	Sold on credit to the Northern Stores, Ltd.— 500 bags of coffee at 58s. per bag, net.....	1,450	0	0
" 19	5 chests of tea at 62s. per chest, net.....	15	10	0
" 19	The Northern Stores, Ltd., returned as unsuitable— 5 chests of tea sold them (allowed them therefor full invoice price).....	15	10	0
" 20	10 bags of coffee sold them (allowed them therefor full invoice price).....	29	0	0
" 20	Bought from the Wynaad Coffee Co., Ltd. on credit— 500 bags of coffee at 60s. per bag, less 5 per cent. Trade Discount.....	1,092	10	0
" 20	Paid from Petty Cash— Housekeeper and cleaning to date.....	2	5	0
" 20	Fires to date.....	0	8	6
" 20	Postages and Telegrams to date.....	0	9	6
" 20	Fire Insurance premium (in advance) for 1 year from March 1 (debit Insurance Account).....	1	10	0
" 20	Received from the Northern Stores, Ltd., cheque on account.....	1,000	0	0
" 20	Allowed them discount thereon.....	10	0	0
" 20	Returned to the Wynaad Coffee Co., Ltd.— 100 bags of the coffee bought from them on March 20, the same being found to be "not up to sample." Received a credit note, for returns, from them for full price, i.e. 100 bags at 46s. per bag, less 5 per cent. Trade Discount.....	218	10	0
" 22	Received from Francis & Co. cheque for £5 10s., and banked the same.....	65	10	0
" 22	Bought at auction from R. Levy freehold premises, 459c Minorities, for.....	3,000	0	0
" 22	Of which paid by cheque.....	1,000	0	0
" 22	The balance (£2,000) to be paid upon the formal transfer of the property.....			
" 22	The Bank notify that Francis & Co.'s cheque has been returned to them dishonoured.....	65	10	0
" 23	Discounted with the Bank the Northern Stores Co.'s acceptance for.....	1,000	0	0
" 23	Being charged discount therefor.....	8	15	5
" 23	Francis & Co. offer to discharge the amount of their dishonoured cheque as follows— 1. By their acceptance at 30 days' sight, endorsed by Brown & Co., for.....	50	0	0
" 23	2. By cheque for.....	15	10	0
" 24	Added to their offer and received cheque and acceptance, paid the former to Bank, through whom it was duly honoured.....			
" 24	Borrowed from the Property & Mortgage Trust, Ltd., at 4 per cent. per annum, upon the security of 459c Minorities. Received their cheque (paid same to Bank).....	1,500	0	0
" 24	Simultaneously with receipt of the foregoing cheque J. Harris received from Mr. R. Levy's solicitors the deeds relating to 459c Minorities in exchange for his cheque for £2,000, balance of purchase money, and these deeds, together with the Mortgage Deed, were duly handed to the Property & Mortgage Trust, Ltd.....	2,000	0	0

		£	s.	d.
Mar. 24	Paid R. Levy, by cheque, value of Fixtures at 4500 Minorities (Furniture and Fixtures Account)....	10	5	9
" 25	Francis & Co. this day suspended payment.			
" 25	Sold to Wightson Bros. on credit— 50 bags of coffee at 52s. per bag.....	130	0	0
" 26	Paid by cheque to the Forwarding Agency, Ltd., charges for carriage on sundry bags of coffee and chests of tea, delivered through them to the purchasers thereof.....	26	18	4
" 27	Received from Wightson Bros. their acceptance at 3 months' date for.....	125	10	0
	Allowed them discount thereon.....	4	10	0
" 29	Drew from Bank for Office Cash.....	50	0	0
" 29	Drew from Bank for Petty Cash, in order to increase the Cashier's agreed balance to £30.....	10	0	0
" 30	Paid, from Office Cash, salaries and wages to date....	13	5	0
" 30	Bills Payable held by Produce Importing Co., Ltd., net to-day through the Bank.....	400	0	0
" 31	Paid, from Petty Cash— Housekeeper and cleaning to date.....	3	9	0
	Fires to date.....	0	10	9
	Postages and Telegrams to date.....	0	13	6
	Travelling Expenses to date.....	4	3	9
	3 bottles of Ink.....	0	3	6
	Repairs to Copying Press.....	0	8	9
" 31	Sold for cash (placed in Office Cash), 10 bags of coffee at 62s. net.....	31	0	0
" 31	Drew cheque on bankers to restore Petty Cashier's balance to £30.....	19	5	6
<i>Note.</i> —The following provisions are to be made at the end of the month—				
Stocks on hand are to be valued as under—				
	1,073 bags of coffee at 55s. per bag.....	2,950	15	0
	10 chests of tea at 60s. per chest.....	30	0	0
2.	One month's depreciation is to be written off Leasehold Land and Buildings at the rate of £100 per annum.....	8	6	8
3.	Eleven months' fire insurance premium paid in advance is to be carried forward.....	1	7	6
4.	A reserve for the loss on the debt due from Francis & Co. and on the bill held bearing their acceptance is to be made, of.....	85	0	0
5.	Provision is to be made for sundry expenses due but unpaid at the end of the month.....	52	10	0
6.	Fixtures and Fittings are to be depreciated at the rate of 12 per cent. per annum, nothing being written off the Fixtures and Fittings bought during the month, i.e. 1 month's depreciation is to be allowed for at 12 per cent. per annum on £120.....	1	4	0

Unless otherwise stated, all moneys are to be taken as having been paid into the Bank as and when received, and all payments to have been made by cheque.

Taking the details and transactions given in the above exercise seriatim, their method of treatment is as under—

The first matter to be dealt with is the opening of the books, as on March 1st, 1909, by means of a Journal entry incorporating the Assets and Liabilities at the commencement of the trading period, and showing the initial Capital with which J. Harris commenced business.

As indicated in Chapter VII, the Assets are ranged upon the *debit* side in the Journal entry, while the

Liabilities are set out on the *credit* side; upon the credit side also is inserted the figure necessary to make the two sides of the Journal entry agree. Such adjusting figure represents the *Initial Capital* embarked in the undertaking.

The opening Journal entry thus assumes the following form—

JOURNAL

1909.		Dr			Cr.		
		£	s.	d.	£	s.	d.
Mar. 1	Sundries—						
	To Sundries, viz.—						
	Cash	2,049	16	6			
	Stock (Coffee on hand)	4,065	0	0			
	„ (Tea on hand)	240	0	0			
	Lease of Warehouse and Land	1,500	0	0			
	Francis & Co.	65	10	0			
	Furniture and Fixtures	120	0	0			
	Wynand Coffee Co.				2,050	16	5
	Capital Account (J. Harris)				5,989	10	1
	Balance Asst. Cash and Capital at the commencement of business.						
		£8,040	6	6	£8,040	6	6

The transactions for the month would then be dealt with in the books of J. Harris as under—

March 1. Drew from Bank for Office Cash, £50.

The £50 is entered in the Cash Book on the credit side in the “Bank” Column, in order to record the withdrawal, and on the debit side in the “Office Cash” column, to record the receipt by the Office Cashier of the like sum, the Bank having paid that amount, and the Cashier having received it. Office Cash is thus *debited* with the £50 received by it, and the Bank is *credited* with the £50 which it has paid.

March 1. Drew from Bank for Petty Cash, £20.

The £20 is entered in the “Bank” column of the Cash Book upon the Credit side, and a debit entry is made in the Petty Cash Book recording the receipt of £20 by the Petty Cashier. The former entry is made by the Chief Cashier, or other official entrusted with the keeping of the Cash Book, and the latter entry is made by the Petty Cashier, who, wherever possible, should be a different person. The Petty Cashier is thus *debited* with the £20 because he has received that sum, and the Bank is *credited* with the £20 which it has paid.

<i>March 3. Bought from the Produce Importing Company, Ltd., on Credit—</i>			£	s.	d.
200 bags Wynaad Coffee at 50s. per bag	500	0	0		
100 chests Silhana Tea at 46s. per chest	230	0	0		
	<u>£730</u>	<u>0</u>	<u>0</u>		

Immediately upon receipt of the Invoice from the Produce Importing Company, Ltd., the clerk in charge of the Purchases Book copies into it the details given above; the amount payable for the Coffee bought (£500) is entered in the "Coffee" analysis column of the Purchases Book, the amount payable for the Tea (£230) is entered in the "Tea" analysis column, and the total of the Invoice (£730) is extended into the total column in the Purchases Book. The posting of these items to the credit of the Produce Importing Company, Ltd., in their Ledger account, is subsequently effected by the Ledger-keeper from the Purchases Book, and the folio of the Ledger account in which the items appear is entered by him in the folio column of the Purchases Book, thus indicating to himself, and to all other persons concerned, that the necessary Ledger posting has been duly effected. The Purchases Book folio ("P" in this case) is entered in the folio column in the Ledger account.

The "Purchases" Account is thus *debited* with the £730 worth of goods received into the business, and the Produce Importing Company is *credited* with the £730 worth of goods which they have sold and delivered.

<i>March 6. Sold the Northern Stores, Ltd., on credit—</i>			£	s.	d.
500 bags coffee, medium, at 56s. per bag,					
less 2 per cent. Trade Discount	1,372	0	0		
200 chests Tea at 50s. per chest net	500	0	0		
	<u>£1,872</u>	<u>0</u>	<u>0</u>		

The fact that this sale has taken place, and the details of which it is composed, appear in the "Invoice Press Copy Book" kept by J. Harris, *i. e.* in the Press Copy Book in which all the invoices rendered by him to customers are copied prior to being sent out.

From this Press Copy Book the clerk in charge of the Sales Book records the sale in his Sales Book, entering the selling price of the Coffee sold in the "Coffee" analysis column the price of Tea sold in the "Tea"

analysis column, and extending the total in the "Total" column in manner similar to that indicated in the case of the purchase referred to in the preceding paragraph.

The posting of the item to the debit of the Ledger account of the Northern Stores, Ltd., is effected by the Ledger-keeper in the ordinary way as described above.

The Northern Stores, Ltd., are thus *debited* with the £1,872 worth of goods received by them, and the "Sales" Account is *credited* with the £1,872 worth of goods delivered.

March 9. Paid from Petty Cash—	£	s.	d.
For Envelopes and Letter-paper . . .	1	4	9
For Brass Door-plates (debit "Furniture and Fixtures" Account) . . .	3	8	6
For Stamps	0	15	0

As and when the above payments are effected by the Petty Cashier, he enters them in his Petty Cash Book on the credit side in the total column. Such of the items as relate merely to expenses coming appropriately under any of the headings set out in the analysis columns of the Petty Cash Book are forthwith "extended" (*i. e.* entered more to the right-hand side of the book) in their respective analysis columns. Into this category fall the payments for Envelopes and Letter-paper (£1 4s. 9d.), and for Stamps (15s.); these items are consequently immediately extended respectively in the "Stationery" and "Postages and Telegrams" columns.

The remaining payment, viz. that for "Brass Door-plates (£3 8s. 6d.)," requires to be debited to the "real" Ledger account headed "Furniture and Fixtures," and this sum is consequently extended into the "Ledger" column upon the extreme right-hand side of the Petty Cash Book, with the name of the Ledger account (viz. "Furniture and Fixtures") appended. From the item, thus extended, a debit entry is subsequently made by the Ledger-keeper in the "Furniture and Fixtures" account in his Ledger, and the necessary double entry is thus completed. The Ledger folio is inserted in the folio column in the Petty Cash Book in the ordinary way, in order to indicate that the item has been duly posted.

The various expense accounts, "Stationery" and "Postages," are thus *debited* with the sums spent in these directions, and the "Furniture and Fixtures" Account is debited with the cost of the brass door-plates

acquired, the Petty Cash being *credited* with the money spent.

<i>March 10. Accepted the Produce Importing Company's</i>			
<i>Draft—</i>			
		£	s. d.
<i>Due March 30 for</i>		400	0 0
<i>Paid them by Cheque</i>		315	0 0
<i>Being allowed Discount</i>		15	0 0
		<hr/>	
		£730	0 0
		<hr/>	

These transactions, in reality three in number, must first be mentally classified according to the particular book in which the original entry is to be effected.

The "acceptance" for £400 is a "Bills Payable" transaction, and therefore requires to be entered in that book; the other two transactions, together amounting to a cash payment coupled with a discount allowance, must obviously be recorded in the Cash Book.

The Bill Payable for £400 is consequently entered in the Bills Payable Book, the various details relating to it being recorded in the appropriate columns (*e. g.* "for whose account accepted," "where payable," etc.), and the amount is posted therefrom to the debit of the firm "for whose account accepted," *i. e.* the Produce Importing Company.

The amount of the cheque drawn (£315) in favour of the Produce Importing Company, Ltd., is entered (from the cheque counterfoil appearing in J. Harris's cheque-book) in the Cash Book upon the credit side in the "Bank" column; the discount allowance received (£15) is entered upon the same line in the Cash Book, again upon the credit side, but in the "Discount" column. The total of the two items (£330), thus entered upon the credit side in the Cash Book, is posted to the debit of the Ledger account of the Produce Importing Company, Ltd., by the Ledger-keeper, the Ledger folio being entered in the Cash Book against the items, and the Cash Book folio ("C" in this case) being entered in the folio column in the Ledger.

The Produce Importing Company is thus *debited* with items amounting to £730, representing cash and an acceptance given them and discount allowed by them, while "Bills Payable" are *credited* with £400, representing the liability incurred on the Bill Payable; "Cash" is credited with £315, representing the cash paid with,

and "Discount Account" (*via* the Cash Book) is *credited* with £15 for a "profit" received.

March 11. Drew upon the Northern Stores, Ltd., at 3 months' sight for £1,000, which draft was duly accepted.

This bill, received by J. Harris, must be recorded in the "Bills Receivable Book" in a manner similar to, although with the reverse effect of, the Bill Payable referred to in the preceding entry.

Consequently the bill, with full particulars, is first entered in the Bills Receivable Book, and is posted from thence to the credit of the person "from whom received," *i.e.* the Northern Stores, Ltd., in the Ledger account kept for them by J. Harris's Ledger-keeper. The requisite posting is effected by the latter in the ordinary way.

"Bills Receivable" are thus *debited* with £1,000, representing the amount of the bill received, and the Northern Stores, Ltd., are *credited* with the value of the bill (£1,000) which they have given to J. Harris.

March 12. Sold Francis & Co. 100 bags coffee at 60s., less 2½ per cent. trade discount, £292 10s. 0d.

This transaction is passed through the Sales Book, and is posted subsequently to the debit of Francis & Co.'s Ledger account by the methods explained as applicable in the case of the sales described under date March 6.

It is to be noted that in the case of this sale, as was also the case with reference to that made on March 6, the trade discount has been deducted before any attempt is made to pass the transaction through the books.

Francis & Co. are thus *debited* with £292 10s. for the value of the goods sold to them, the "Sales Account" being *credited* with £292 10s. for the goods parted with.

March 12. Received from the Northern Stores, Ltd., cheque for £850; paid same to bank; allowed them discount, £22.

The £850 is entered in the debit "Bank" column in the Cash Book, while the discount allowance (£22) is entered at the same time in the adjacent "Discount" column; the total, £872, is then posted to the credit of the Northern Stores, Ltd., in the Ledger account kept for them. The Bank is thus *debited* with £850 because

March 17. Sold for cash (placed in Office Cash)—

3 bags coffee at 50s.	. . . . .	£7 10 0
10 chests tea at 60s.	. . . . .	£30 0 0

These sales are not sales "upon credit," and, consequently, do not need to be recorded through the Sales Book, which book, it will be remembered, is restricted to the record of sales "upon credit."

It will be remembered that a "Sales" Account is opened in the Ledger, and that to this account is posted the total of the Sales Book at the end of the period, and it is in this account that, in the present example, the cash sales effected have been credited. In some businesses a separate Ledger account is kept for "Cash Sales," the total of this class of sale being merged with the total of the "Credit Sales" at the end of the trading period; or, as an alternative, a separate column in the Cash Book for "Cash Sales" may be employed, in which the daily total of the Cash Sales is entered, the total of the column being posted, in due course, each month, to a "Cash Sales Account" in the Ledger. In the present example, however, the Cash Sales, not being numerous, have been posted direct from the Cash Book to the "Sales" Account in the Ledger.

The entry consequently is—

The "Office Cash" column on the debit side of the Cash Book is *debited* with the two items (£37 10s.), representing the receipt by the Office Cashier of the proceeds of the Cash Sales, and "Sales" Account in the Ledger is *credited* with the like sum, representing goods parted with.

March 19. Sold on credit to the Northern Stores, Ltd.—

	£	s.	d.
500 bags coffee at 58s. per bag net	1,450	0	0
5 chests tea at 62s. per chest net	15	10	0
	£1,465	10	0

These sales are passed through the Sales Day Book, the items being entered in the proper analysis columns upon lines similar to the sale effected on March 6, to the same purchaser. The Northern Stores, Ltd., are thus *debited* with £1,465 10s. for the value of the goods received by them, and "Sales" Account is *credited* with £1,465 10s. for the goods parted with.

March 19. *The Northern Stores, Ltd., returned as unsuitable—*

5 chests tea sold them	£15 10 0
10 bags coffee	£29 0 0
<i>Allowed them full invoice price therefor.</i>	
<i>(£44 10s. 0d. in all).</i>	

"Returns Inwards" of this nature are, for book-keeping purposes, and as has already been explained (Chapter VIII), dealt with in the books of the original seller as re-purchases of goods previously sold, and must be recorded in the "Returns Inwards" Book upon lines similar to those which would be adopted if the transaction represented an original purchase of goods from the Northern Stores, Ltd., instead of being a re-purchase of goods from them.

The £15 10s. "allowed" for the Tea returned is thus entered in the Returns Inwards Book, with appropriate details, the amount being placed in the "Tea" analysis column, while the £29 allowed for the Coffee returned is similarly entered in the "Coffee" column of the same book, and the total (£44 10s.) is extended into the "total" column. From this book the allowances for Returns Inwards are posted to the credit of the Northern Stores, Ltd., in their Ledger account. "Returns Inwards" are thus *debited* with £44 10s. for the value of the goods received back, and the persons from whom they were received, viz. the Northern Stores, Ltd., are *credited* with £44 10s. for goods with which they have parted.

March 20. *Bought from the Wynaad Coffee Company, Ltd., on credit, 500 bags coffee at 46s. per bag, less 5 per cent. trade discount, £1,092 10s.*

This purchase is entered in the Purchases Book, and is posted to the credit of the Wynaad Coffee Company, Ltd., in the ordinary way. "Purchases" Account is *debited* with £1,092 10s., being the value of the goods received, and the Wynaad Coffee Company, Ltd., is *credited* with £1,092 10s. for goods with which it has parted.

March 20. <i>Paid from Petty Cash—</i>	£	s.	d.
<i>Housekeeper and cleaning to date</i>	2	5	0
<i>Fires to date</i>	0	8	6
<i>Postages and Telegrams to date</i>	0	9	6
<i>Fire Insurance Premium in advance for one year from March 1 (Debit Insurance Account)</i>	1	10	0
	<hr/>		
	£4 13 0		
	<hr/>		

These payments are entered, as and when made, upon the credit side of the Petty Cash Book, in the Total column.

Such of these items (in point of fact the first three payments) as fall under any of the "expense" headings inserted in the analyses columns following the credit "Total" column are extended in those analyses columns under their appropriate headings. Hence the £2 5s. and the 8s. 6d. are inserted under "Housekeeper, Fires and Cleaning," while the 9s. 6d. is entered under "Postages and Telegrams."

The remaining item requires to be debited to a separate account in the trader's Ledger (*i.e.* "Insurance Account"), and it is consequently extended into the extreme right-hand column (the "Ledger Account" column), with the name of its correct Ledger account appended, and the posting of the item to the debit of such Ledger account is subsequently effected from the Petty Cash Book. The respective "expense" accounts are thus *debited* with the sums spent in the various directions indicated. "Insurance Account" is *debited* with £1 10s. for the value of the protection acquired against fire, and "Petty Cash" is *credited* with £4 13s. in all because it has paid the money.

March 20. Received from the Northern Stores, Ltd.,	
cheque on account	£1,000
Allowed them discount	£10

The debit "Bank" column in the Cash Book is debited with £1,000, the debit "Discount" column with £10, and the total of the two items, £1,010, is posted to the credit of the Ledger account of the Northern Stores, Ltd.

The Bank is *debited* with £1,000 for the money received by it, "Discount" is *debited* with £10 for a "loss" sustained in this direction, while the Northern Stores, Ltd., are *credited* with £1,010 for the cash received from them, and the discount allowed to them.

March 20. Returned to the Wynaad Coffee Company,	
Ltd., 100 bags coffee, invoiced at 46s. per bag, less	
5 per cent. trade discount, £218 10s.	

This "Return Outwards" is recorded through the Returns Outwards" Book, from which a posting for £218 10s. to the debit of the Ledger account of the Wynaad Coffee Company, Ltd., is made. The transaction is thus treated as a re-sale to the Wynaad Coffee Company, Ltd., of goods previously bought from it.

The Wynaad Coffee Company, Ltd., is thus *debited* with £218 10s. for the value of goods returned to them, "Returns Outwards" being *credited* with £218 10s. because goods to this amount have been parted with.

March 22. Received from Francis & Co. cheque for £65 10s., and banked same.

The "Bank" column in the Cash Book is *debited* with £65 10s. because it has received a cheque of that value, while Francis & Co. are *credited* with the amount of the cheque received from them.

March 22. Bought at auction from R. Levy freehold premises, 459c Minorities, for £3,000, for which paid by cheque £1,000, the balance to be paid on formal transfer of the property.

This is in reality a twofold transaction, and must be recorded as such; the first transaction to be recorded is the purchase of the premises from R. Levy for £3,000, for which a Journal entry must be passed, viz. debiting "Freehold Premises" with £3,000, and crediting R. Levy with the like sum (£3,000).

"Freehold Premises" are *debited* with £3,000 because premises have been acquired of that value, and R. Levy is *credited* with £3,000 because he has parted with premises costing that amount.

The second transaction requiring to be entered is the payment of £1,000 to R. Levy in reduction of the amount owing to him. This item is entered in the ordinary way in the "Bank" column of the Cash Book, upon the credit side, and the necessary posting is effected to R. Levy's debit in the ordinary way.

R. Levy is *debited* with £1,000 because he has received a cheque for this sum, and the "Bank Account" is *credited* with £1,000 because it has parted with the like amount.

March 22. The Bank notifies that Francis & Co.'s cheque for £65 10s. has been returned dishonoured.

When this cheque was originally received it was, upon the assumption that it would be duly met, debited in the "Bank" column of the Cash Book, and credited in Francis & Co.'s Ledger account. Now, however, in view of the fact that it has been "dishonoured," it becomes necessary to reverse the original entries, and to place matters, as regards Francis & Co.'s Ledger account, in a position

similar to that which would exist if the cheque had never been received.

An entry is consequently made in the Cash Book on the credit side in the "Bank" column, to offset the debit record previously placed in this book on the other side; and, to complete the record, Francis & Co.'s Ledger account is debited with £65 10s. according to the ordinary rules of Ledger posting.

Note.—Many banks credit their customers with cheques immediately they are paid in, irrespective of whether such cheques have been collected or not, debiting their customers subsequently with any of them that are afterwards returned unpaid. The Bank Pass Book will therefore, in all probability, tally exactly with the Cash Book as regards the entries recording the return of cheques.

Francis & Co. are *debited* with £65 10s. because they have become J. Harris's debtors in respect of the dishonoured cheque for that sum, and the Bankers are *credited* with the same amount because, although previously shown as having received it, they have not in fact done so, and it therefore becomes necessary to reverse the original entry.

March 23. Discounted with the Bank the Northern Stores Company's acceptance for £1,000, being charged discount, £8 15s. 5d.

This again is an example of a combined transaction, which, for book-keeping purposes, must be regarded as two transactions.

The first transaction to be recorded is the parting, by J. Harris, with a bill for £1,000 to his Bankers, who are to be deemed (for book-keeping purposes) to have purchased it from him for its full face value; simultaneously, the Bankers charge J. Harris a discount of £8 15s. 5d., for which amount a separate credit entry is made in the "Bank" column of the Cash Book; and the combined effect of this £1,000 entry on the one side and the £8 15s. 5d. entry on the other is that £991 4s. 7d. (being the actual price obtained by J. Harris on sale of the £1,000 bill) is added to the "Bank" balance in the Cash Book.

The necessary entries are consequently as follows—

1. The "Bank Account" is *debited* with £1,000, because it has received the Bill of Exchange for that amount,

while the "Bills Receivable Account" is credited with the £1,000 bill which has been parted with.

2. "Bank Discount" is *debited* with £8 15s 5d. for money "lost" in this direction, and the "Bank Account" is *credited* with the like sum because the Bankers have deducted this amount from the customer's balance which was in their hands.

March 23. Francis & Co. offer to discharge the amount of their dishonoured cheque as follows—

1. *By their acceptance at 30 days' sight for* £50 0 0
 2. *By cheque for* £15 10 0
- Accepted their offer, received acceptance and cheque (latter honoured).*

The above entries must be treated as two separate transactions, and are then simple.

The acceptance received (£50) must be entered in the Bills Receivable Book in the ordinary way, and from thence must be posted to the credit of Francis & Co.'s Ledger account.

The cheque received must be debited in the "Bank" column of the Cash Book, and must be posted thence to the credit of Francis & Co.'s Ledger account. "Bills Receivable Account" is *debited* with £50, the amount of the bill received, and Francis & Co. are *credited* with the same sum because they are the persons from whom it has been received. The Bank is *debited* with £15 10s., because this amount has been received by it, and Francis & Co. are *credited* with £15 10s. because a cheque of that value has been received from them.

March 24. Borrowed from the Property and Mortgage Trust, Ltd., at 4 per cent. per annum upon security of 459c Minorities, received cheque and paid same to Bank, £1,500.

Simultaneously with the receipt of the foregoing cheque, J. Harris received from Mr. R. Levy's solicitors deeds relating to 459c Minorities in exchange for his cheque for £2,000, balance of purchase money, and these deeds, together with Mortgage Deed, were handed to the Property and Mortgage Trust, Ltd.

It will be seen that J. Harris has, simultaneously, (1) borrowed the money wherewith to complete his purchase of 459c Minorities, (2) used that money to assist him in paying the further instalment due, and, as soon as the deeds

came into his possession, (3) pledged them with the persons lending him the money by way of security for their advance.

This method of financing a purchase of property is common in cases where the trader is not prepared to lock up a large portion of his business capital in more or less unproductive assets.

The entries necessary in order to record the transactions enumerated above simply resolve themselves into those arising out of the two sums of cash changing hands, viz. a debit in the Cash Book ("Bank" column) for the £1,500 borrowed from the Property and Mortgage Trust, Ltd., this being duly posted to the credit of the "Property and Mortgage Trust, Ltd., Loan on Mortgage Account." The other entry is a credit in the Cash Book ("Bank" column) for the £2,000 paid to R. Levy, the like sum being debited in due course to his account in the Ledger.

The Cash Book ("Bank" column) is thus *debited* with £1,500, because the Bank has received the money, and the Property and Mortgage Trust, Ltd., is *credited* with the same sum because they have parted with it.

The Cash Book ("Bank" column) is *credited* with £2,000 because the Bank has parted with this sum, and R. Levy is *debited* with the same amount because he has received it.

March 24. *Paid R. Levy, by cheque, value of fixtures at 459c Minorities (debit Furniture and Fixtures Account), £10 5s. 9d.*

When agreeing upon the terms for the sale of buildings it is customary for the purchaser to pay for such removable fixtures as he wishes to retain, a valuation being arrived at as between vendor and purchaser, or, alternatively, a price being fixed by a valuer appointed with the consent of both parties.

The entry necessary in order to record the transaction is a credit in the Cash Book ("Bank" column), coupled with a debit to the "Furniture and Fixtures" Account. "Furniture and Fixtures Account" is *debited* with £10 5s. 9d. because articles answering to this description and value have come into the business, and the Bank is *credited* with £10 5s. 9d. because that sum has been parted with by it.

March 25. *Francis & Co. this day suspended payment.*

"Suspension of payment" does not necessarily always

imply inability to ultimately pay all debts in full, although the implication is usually justified.

Even though a debtor be insolvent it does not necessarily follow that some portion of his debt will not be eventually recovered; consequently it would be incorrect, upon the happening of a suspension of payment, as in this case, to write off the whole of Francis & Co.'s debt as "bad." It is advisable, and indeed customary, to wait until further details as to the insolvency are forthcoming; and, in the meantime, to make no entry in the books beyond a memorandum in the Ledger of such facts as are to hand.

March 25. Sold Wrightson Bros. on credit 50 bags coffee at 52s. per bag net, £130.

This transaction is entered in the Sales Book, and is thence debited to Wrightson Bros. in the ordinary way.

Wrightson Bros. are *debited* with £130 because they have received goods to that amount, and "Sales" Account is *credited* with a like sum because goods of that value have been parted with.

March 26. Paid by cheque to the Forwarding Agency, Ltd., charges for carriage of sundry bags of coffee and chests of tea despatched through them to the purchasers thereof, £26 18s. 4d.

It is not necessary to go to the trouble of opening a Ledger account for the Forwarding Agency, Ltd., for an isolated item like the above. By means of a Journal entry, the "Carriage and Cartage" Account could have been debited while the Ledger account of the Forwarding Agency, Ltd., was credited, the cheque drawn being posted to the debit of the latter account.

But the simple, and more usual, way to record a transaction of this nature is to debit the amount of the cheque *direct* from the Cash Book to the "Carriage and Cartage Account" in the Ledger. The entry is consequently—

Credit the "Bank" column in the Cash Book with £26 18s. 4d., because the Bank has parted with the money, and *debit* the "Carriage and Cartage Account" with £26 18s. 4d., because that sum has been expended on carriage and cartage.

March 27. Received from Wrightson Bros. their acceptance at three months' date

<i>for</i>	£125 10 0
<i>Allowed them discount</i>	£4 10 0

If cash for the above amount had been received from Wrightson Bros., the discount allowed them could have been recorded, in company with the cash entry, through the usual medium of the Cash Book. There is, however, no column in the Bills Receivable Book in which to record the discounts allowed upon the payment of accounts "by acceptance," and the above transactions must consequently be recorded as separate matters.

The acceptance received from Wrightson Bros. must be entered in the Bills Receivable Book, and thence posted to their credit in the ordinary way.

"Bills Receivable Account" is thus *debited* with £125 10s. because a Bill Receivable for that sum has come in, and Wrightson Bros. are *credited* with £125 10s. because they have parted with a bill for that amount.

No other method exists of recording the discount allowed in the books except by means of an entry in the Journal proper. This transaction, like that of the purchase of premises from R. Levy, falls into the category of transactions for which no special book of original entry exists, and for the record of which the use of the Journal proper is consequently inevitable.

A Journal entry, debiting the "Discount" account, and crediting Wrightson Bros., is consequently made and posted to the respective Ledger accounts.

"Discounts" Account is thus *debited* with £4 10s. because "Discounts Account" may be said to have parted with or "allowed" that sum, and Wrightson Bros. are *credited* with £4 10s. because the discount allowance made to them corresponds in effect to a payment received from them.

March 29. Drew from Bank for Office Cash, £50.

For this transaction it is necessary to credit the "Bank" column on the credit side of the Cash Book, and to debit the "Cash" column on the debit side of the same book, as in the case of the withdrawal made on March 1.

"Office Cash" is *debited* with £50 because it has received the money, and the Bank Account is *credited* with £50 because it has parted with that sum.

March 29. Drew £10 from Bank for Petty Cash, in order to increase the Cashier's agreed balance to £30.

It will be remembered that, when employing the "Imprest" system of keeping Petty Cash, the Petty Cashier is, at the beginning of a given period, started

with an agreed round sum of cash in hand, and that, at the end of certain stated periods (*e.g.* monthly), the balance he has in hand is restored to its original figure by means of a cheque drawn on the firm's banking account for whatever sum he (the Petty Cashier) has expended during the preceding period.

In the case of J. Harris's cashier a balance of £20 was originally agreed as sufficient to cover the estimated expenditure of each month, but, for various reasons, it was subsequently decided to raise the limit to £30; a cheque for £10 was therefore drawn to place the Petty Cashier in the same position as if he had originally received £30 at the beginning of the month.

The necessary entry to record this further £10 corresponds exactly with that which was made at the commencement of the month, when £20 was drawn for Petty Cash purposes. The "Bank" column in the Cash Book is consequently credited with £10 and the debit side of the Petty Cash Book is debited with the same sum.

The Petty Cashier is *debited* with £10 because he has received the money, and the "Bank Account" is *credited* with a like sum because it has parted with the money.

March 30. Paid, from Office Cash, Salaries and Wages to date, £13 5s.

To record this transaction it is necessary to credit the Cash Book ("Cash" column) and to debit the "Salaries and Wages Account" in the Ledger. "Office Cash" is *credited* with £13 5s. because it has disbursed the money, and "Salaries and Wages Account" is *debited* with the same amount because it is in this direction that the money has been spent.

March 30. Bill Payable, held by the Produce Importing Company, Ltd., met to-day through Bank, £400.

Upon the above bill being presented to them J. Harris's bankers will, in the ordinary course, have paid the amount of it to the holders and, at the same time, have debited J. Harris with the £400 so disbursed.

The necessary entry in J. Harris's books is a credit in the "Bank" column in the Cash Book, which in due course is posted to the debit of the Bills Payable Account in the Ledger. "Bills Payable Account" is *debited* with £400 because the holder of the Bill Payable (who is included in the heading "Bills Payable") has received

the money, and the "Bank Account" is *credited* because it has parted with the money.

March 31. Paid from Petty Cash—	£	s.	d.
Housekeeper and Cleaning to date	3	9	0
Fires to date	0	10	9
Postages and Telegrams to date	0	13	6
Travelling Expenses to date	4	3	9
Three bottles of Ink	0	3	6
Repairs to Copying Press	0	3	9

The foregoing payments are first entered as and when made in the "total" column on the credit side of the Petty Cash Book, and are then extended into their respective analysis columns, as in the case of the items of similar nature previously explained.

The £3 9s. and 10s. 9d. are extended into the column provided for "Housekeeper, Fires and Cleaning," the 13s. 6d. as "Postages and Telegrams," the £4 3s. 9d. as "Travelling Expenses," the 3s. 6d. as "Stationery," and the 3s. 9d. as "Repairs." There are no items amongst these payments which require separate posting to the debit of Ledger accounts, and consequently there is nothing to extend in the "Ledger" column.

"Petty Cash" is *credited* with the above payments because it has parted with the money, and, *via* the Petty Cash Book, the respective "expense" accounts are *debited* with their respective amounts because the money has been parted with in their direction.

March 31. Sold for cash (placed in Office Cash), 10 bags of coffee at 62s. net, £31.

"Office Cash" is *debited* with £31 because it has received the money, and the "Sales Account" is *credited* with £31 because goods to that value have been parted with.

March 31. Drew cheque for £19 5s. 6d. on Bankers in order to restore Petty Cashier's Balance to £30.

"Petty Cash" must be *debited* with £19 5s. 6d., because it has received the money, and the "Bank Account" must be *credited* with the same sum because it has parted with it.

The foregoing transactions having thus been duly recorded in the books it remains—

1. To make the additions of, and to post to their respective Ledger accounts, the various Journals,

the "Discount" columns of the Cash Book, and the analysis columns of the Petty Cash Book.

2. Thereafter to extract the Trial Balance as a preliminary step to the final closing of the books.

Taking the Journals first—

- (a) The Sales Journal and the Returns Outwards Book are added up and their totals are posted to the *credit*, respectively, of the "Sales Account" and the "Returns Outwards Account," the distinctions as to the analysis columns being everywhere followed.
- (b) The Purchases Journal and the Returns Inwards Book are added up and their totals are posted to the *debit*, respectively, of the "Purchases Account" and the "Returns Inwards Account."
- (c) (1) The Bills Payable and (2) the Bills Receivable Books are added up, and their totals are posted respectively (1) to the *credit* of the "Bills Payable Account" and (2) to the *debit* of the "Bills Receivable Account."

Next, as regards the Cash Book—

- (d) The totals of the "Discount" columns having been ascertained, the total of the *debit* "Discount" column appearing in the Cash Book is posted to the *debit* of the "Discount Account" in the Ledger, and the total of the *credit* "Discount" column is posted to the *credit* of the "Discount Account" in the Ledger. These items appear in the Cash Book, as has already been explained, solely as memoranda for convenience of easy record, and to minimize the labour of posting.

And, as regards the Petty Cash Book, the analysis columns are added throughout, whereupon—

- (e) The totals of the various "expense" analysis columns appearing in the Petty Cash Book are posted in the Ledger in each case to the *debit* of its relative Ledger account—*e.g.* the £1 18s., total of the "Postages and Telegrams" analysis column, is posted to the *debit* of the "Postages and Telegrams" Account in the Ledger.

Finally, the Cash Book ("Office Cash" and "Bank" Accounts) and the Petty Cash Book are added up and the balances appearing thereon are brought down.

By means of the posting of the various totals set forth above the double entry recording the transactions passing through the Journals, Cash Book, and Petty Cash Book has been completed, and, if a Trial Balance be now extracted, its two sides should, if the book-keeping has been correct, agree exactly.

The Trial Balance extracted from J. Harris's books will be found on page 181, and it will be seen that the total debits equal the total credits.

Having completed the Trial Balance it now becomes possible—

1. To compile J. Harris's Trading Account and Profit and Loss Account for the month of March.
2. Thereafter to construct a Balance Sheet for the purpose of showing J. Harris's financial position at the end of the month.

All the transactions in "goods" have, as has already been explained, been placed, each according to its type, in separate classified Ledger accounts, viz. "Stock," "Sales," "Purchases," "Returns Inwards" and "Returns Outwards"; and, for the purpose of constructing a "Trading Account," it is necessary to transfer to the latter all the balances remaining upon the various subsidiary accounts.

The first item to be placed in the Trading Account is the stock of goods on hand as on March 1 with which the trading for the month was commenced; this, as will be seen by a reference to the "Stock Account" (Ledger folio 24), amounted to £4,305, and for this sum a Journal entry, debiting the Trading Account and crediting the Stock Account, is passed through the necessary books.

The next class of item to be considered is that of "Purchases," and here the effect of the "Returns Outwards" upon the balance appearing upon the "Purchases Account" may be usefully considered. It will be remembered that "Returns Outwards" are "Purchases" which, for one reason or another, have been returned to the seller immediately after delivery; and that, although in the Ledger account kept for "Purchases" no note of the deduction of the "Returns" appears, nevertheless the Returns Outwards are included in, and *pro tanto* inflate, the "Purchases" figure. Therefore they must be deducted in compiling the Trading Account in order to show the *net* amount of the actual Purchases at its true and proper figure.

In order to close the Purchases Account a Journal

entry must be passed, crediting the Purchases Account and debiting the Trading Account with the total postings appearing to the debit of the former; but, in posting this debit in the Trading Account, the entry is not made at once in the debit column proper, but is inserted in the "detail" debit column immediately to the left of the debit column proper; in other words, the posting is entered "short" in the debit detail column.

At the same time, in order to close the Returns Outwards Account the balance appearing to the credit of this account must be transferred by means of a Journal entry, debiting the Returns Outwards Account and crediting the Trading Account; but, for the reasons previously given, the posting of this Journal entry in the Trading Account is not made, according to the general rule, in the credit column of the account. The entry in the Trading Account is effected on the *debit side*, in the *detail* column, immediately underneath the total purchases (which latter has already been there entered as set out above), and *as a deduction from the total of the purchases*; the net figure of purchases obtained by thus deducting the Returns Outwards from the gross purchases is then extended into the debit column proper.

Following the lines thus laid down, the Journal entries for the Purchases and Returns Outwards have been passed through the books, and the effect of the record of these Journal entries in the Trading Account is to show the totals of the net purchases as under—

Purchases.			Coffee.			Tea.			Total.		
	£	s. d.	£	s. d.		£	s. d.		£	s. d.	
Coffee . .	1,592	10 0	—	—		—	—		—	—	
Less Returns	218	10 0	—	—		—	—		—	—	
	<hr/>				1,374	0 0	—		} 1,604 0 0		
Tea . . .	230	0 0	—	—		230	0 0				
	<hr/>										

Conversely, in the case of the Sales and Returns Inwards a similar principle is followed, and the Sales thereby are shown at their net figure in the Trading Account as under—

Sales.			Coffee.			Tea.			Total.		
	£	s. d.	£	s. d.		£	s. d.		£	s. d.	
Coffee . .	3,283	0 0	—	—		—	—		—	—	
Less Returns	29	0 0	—	—		—	—		—	—	
	<hr/>				3,254	0 0	—		} 3,784 0 0		
Tea . . .	545	10 0	—	—		—	—				
Less Returns	15	10 0	—	—		—	—				
	<hr/>				—	530	0 0				

The initial stock of goods on hand and the Purchases and Sales having been thus dealt with, it remains to bring into the Trading Account the stock of goods on hand at the end of the month of March.

This requirement is effected by means of a Journal entry debiting the Stock Account, and crediting the Trading Account with the amount of the Stock on hand, at close of the period, as arrived at by actual valuation, viz.—

	£	s.	d.
Coffee	2,950	15	0
Tea	30	0	0
Total	£2,980	15	0

After this entry has been made in the Trading Account it becomes possible to ascertain the amount of the Gross Profit derived from Trading for the month of March, as follows—

	£	s.	d.
Total of the Credit "Total" column	6,764	15	0
Total of the Debit "Total" column	5,909	0	0
Difference	£855	15	0

This difference, *i.e.* the amount necessary to be inserted in order to make the two sides of the Trading Account agree, is the **Gross Profit** for the period. It represents the bare excess of the selling prices obtained for the goods sold over what they have cost, without taking into account the various expenses involved in effecting the sales.

The totals of the postings appearing respectively to debit and credit in the "Coffee" and "Tea" analysis columns are deducted in manner analogous, and reveal the following departmental Gross Profits, viz. Coffee, £756 15s. 0d.; and Tea, £90. These departmental Gross Profits equal the Total Gross Profit shown in the Total column, and are inserted in their respective analysis columns, which in their turn are added up. Finally, the whole of the items on either side of the statement agree if "cross cast."

For the record of the Gross Profit, and for its subsequent transfer to the Profit and Loss Account, a Journal entry, as under, must be passed through the books and posted; the Trading Account can then be added up and ruled off.

For the Trading Account prepared upon these lines see page 179.

By transferring the amount of the Gross Profit, ascertained by means of the Trading Account, to the credit of the Profit and Loss Account opened for the purpose, a further stage in the closing of the books has been reached, and the preparation of the Profit and Loss Account may now be entered upon.

Beyond the Gross Profit there is, in the example under consideration, no item of "profit" to be credited to the Profit and Loss Account. If such items had existed Journal entries would have become necessary for their transfer to the Profit and Loss Account.

It remains therefore to consider the building up of the debit side of the account, by means of the transfer thereto of all items of "loss" or "expense" chargeable against the profit for the period.

There are, set forth in the notes at the end of the example, certain adjustments which must be made in order to provide for special types of loss, and these provisions must be duly incorporated in the books. They are as under—

- | | | | |
|-------------------------------------------------------------------------------------------|----|----|----|
| (2) <i>One month's depreciation is to be written off the leasehold land and buildings</i> | £ | s. | d. |
| | 8 | 6 | 8 |
| (4) <i>A Reserve for Bad and Doubtful Debts is to be created of</i> | 85 | 0 | 0 |
| (6) <i>Fittings and Fixtures are to be depreciated by</i> | 1 | 4 | 0 |

For these three adjustments Journal entries are necessary.

Two other adjustments, as set out below, are also necessary, but it is possible to provide for them in carrying down the balances upon the respective accounts; and, although the ordinary Journal entries are passed closing those accounts by means of transfers to the Profit and Loss Account, special Journal entries are not needed in these cases.

- | | | | |
|-----------------------------------------------------------------------------------------------|----|----|----|
| (3) <i>Eleven months' Fire Insurance premium paid in advance is to be carried forward</i> | £ | s. | d. |
| | 1 | 7 | 6 |
| (5) <i>Provision is to be made for sundry expenses due but unpaid at the end of the month</i> | 52 | 10 | 0 |

For the depreciation necessary to be written off the

Leasehold Land and Buildings, and for that which is to be written off the Fixtures and Fittings, a Journal entry has been made crediting the Asset Accounts with the amounts written off, viz. £8 6s. 8d. and £1 4s., and debiting "Depreciation Account" with the total of £9 10s. 8d.

For the amount which is to be reserved to cover the estimated loss on bad and doubtful debts, i.e. £85, a Journal entry has been passed debiting the Profit and Loss Account, and crediting the "Reserve for Bad and Doubtful Debts Account."

It then remains to transfer to the debit of the Profit and Loss Account the balances standing on all the "Expense" and "Loss" Accounts in the Ledger, incidentally bringing adjustments (3) and (5), set out above, into the books at the time of so doing.

As regards adjustment (3), the "Insurance Account" in the Trial Balance shows a debit balance of £1 10s., of which 2s. 6d. only is to be debited to the current Profit and Loss Account, leaving the balance of £1 7s. 6d. to be carried forward as an asset. In transferring the "Expense" from the Insurance Account to the Profit and Loss Account therefore the entry is only made for 2s. 6d., while the balance of the account (£1 7s. 6d.) is carried down and subsequently appears in the Balance Sheet as an asset.

Adjustment (5) is also dealt with by means of bringing down a balance on the relative "Expense" Account, although the balance in this case is brought down on the credit side, and represents a *liability* for subsequent inclusion in the Balance Sheet in place of the *asset* arising out of adjustment No. (3).

A reference to the Trial Balance and to the "General Expenses" Account will show that this account already exhibits a debit balance of £8 5s. 3d. Provision for the £52 10s. of further expenses due but unpaid at the date of balancing is made—

1. By making, in the General Expenses Account, a debit entry for £52 10s. immediately below the items already posted in the account. This entry being intended to be added up together with the previous postings, and the combined total of all the entries (£60 15s. 3d.) being designed to be transferred to the Profit and Loss Account.
2. By making a credit entry for £52 10s. in the

General Expenses Account, well below the items on the debit side, and allowing space for ruling off the account. This entry represents the liability remaining to be satisfied, and, later on, is included in the Balance Sheet.

The total (£60 15s. 3d.) remaining on the debit side of the General Expenses Account is subsequently transferred to the Profit and Loss Account in the ordinary way, in company with other "expense" accounts; and the ruling off of the account leaves the £52 10s. credit entry standing as a liability in the account for satisfaction during the ensuing period.

The "losses" and "expenses" to be transferred to the debit of the Profit and Loss Account are set forth in the last Journal entry but one appearing in the Journal annexed. When these items are duly posted in the Ledger all the "expenses" accounts (except the Insurance and General Expenses Accounts referred to above) are closed, and the balances then remaining upon the Ledger are those either of the Assets, Liabilities, Capital, or Profit and Loss Accounts.

The Profit and Loss Account, when all expenses have been duly posted in it, shows a balance to the credit amounting to £621 6s. 1d. This balance represents the **Net Profit** for the month, and requires to be transferred, by means of a Journal entry, to the credit of J. Harris's Capital Account. This is the last Journal entry set out in the Journal proper.

With the merging of the balance on the Profit and Loss Account with the Capital Account, the process of closing the books is completed; and, there being now remaining in the Ledger only such balances as represent Assets, Liabilities, and Capital, it is possible to prepare a Balance Sheet.

The Balance Sheet prepared will be found on page 182 and follows the lines laid down in Chapter X. The Assets are ranged in order of their realizability, commencing at the head of the column with the "least easily realizable" property.

There appear in the Balance Sheet appended the following instances of the grouping and classification of balances in order to clearly show the financial position.

On the Liabilities side the amount due to the Wynaad Coffee Company (£1,914 16s. 5d.) and the amount set

aside for the outstanding expenses (£52 10s.) are set out together, and their combined total (£1,967 6s. 5d.), being the whole amount owing by J. Harris to his creditors (except the £1,500 owing to the Property and Mortgage Trust, Ltd., on the Mortgage of 459c Minorities), is extended into the principal debit column of the Balance Sheet. This procedure is followed in order to show, in one total, the amount due by J. Harris to his trade creditors. The amount due to the Property and Mortgage Trust, Ltd., being secured upon the value of 459c Minorities, is shown as a deduction from the value of the property pledged (£3,000) on the Assets side of the Balance Sheet.

On the Assets side of the Balance Sheet the value of 459c Minorities ("Freehold Premises") is shown "short" as £3,000, and the amount borrowed (£1,500) upon security of these premises is shown as a deduction; the balance of £1,500, representing the value of J. Harris's "equity of redemption," or residuary interest in the premises, after providing for the satisfaction of the mortgage upon them, is extended into the principal credit column.

The amount due from Sundry Debtors (£703 10s.) (made up of £292 10s. due from Francis & Co., and £411 due from the Northern Stores, Ltd.) is shown "short" on the Assets side of the Balance Sheet, and immediately below the £703 10s. thus entered is shown the amount of the Bills Receivable on hand (£175 10s.); these items are added together (still in the "short" column), and the amount set aside out of profits as a Reserve for Bad and Doubtful Debts (£85 0s.) is placed immediately underneath the total due from Debtors and on Bills Receivable, and is deducted from these. The net figure thus obtained (£794) represents the estimated actual value of the indebtedness to J. Harris of his customers, *i.e.* the net value of his "Sundry Debtors" and "Bills Receivable," and it is this estimated "net" value which is extended into the principal column of the Assets side of the Balance Sheet.

The foregoing groupings and deductions have been made in order to show, with a minimum of investigation, the true financial position of J. Harris to any person who may inspect his Balance Sheet.

The various "Wasting" Assets, *e.g.* Leasehold Premises and Furniture and Fixtures, are stated, in accordance with the usual practice, as being included in the Balance Sheet at "cost less depreciation."

CONTRA

Cr.

Date.			Discount.			Cash.			Bank.		
			£	s.	d.	£	s.	d.	£	s.	d.
1909.											
Mar. 1	By Office Cash.....	Contra							50	0	0
	Amount drawn from Bank.										
" 1	" Petty Cash	P.C.							20	0	0
	Amount drawn from Bank.										
" 16	" Produce Importing Co., Ltd.—										
" 15	Cheque and Discount	7	15	0	0				315	0	0
" 15	" Salaries and Wages—										
" 15	Salaries and Wages to date	14				12	10	0			
" 15	" Wynaad Coffee Co.—										
" 16	Cheque and discount	5	10	0	0				1000	0	0
" 16	" Furniture, and Fixtures—										
" 22	Electric Light fittings	8				5	7	9			
" 22	" R. Levy—										
" 22	On account of purchase price of 459c										
" 22	Minorities.....	11							1000	0	0
" 22	" Francis & Co.—										
" 22	Cheque dishonoured..	6							65	10	0
" 22	" Bank Charges—										
" 24	Discount on Northern Stores's, Ltd., acceptance discounted as per contra.....	22							8	15	5
" 24	" R. Levy—										
" 24	Balance of purchase money 459c										
" 24	Minorities.....	11							2000	0	0
" 24	" Furniture and Fixtures Account—										
" 26	Fittings at 459c										
" 26	Minorities (R. Levy)	3							10	5	6
" 26	" Carriage and Cartage—										
" 29	Forwarding Agency, Ltd., carnage on sundry sales	23							26	18	4
" 29	" Office Cash—										
" 29	As per contra.....	Contra							50	0	0
" 29	" Petty Cash—										
" 30	To increase balance to £30.....	P.C.							10	0	0
" 30	" Salaries and Wages—										
" 30	Salaries and Wages to date.....	14				13	5	0			
" 30	" Bills Payable—										
" 31	Produce Importing Co.'s, Ltd., Bill due to-day.....	12							400	0	0
" 31	" Petty Cash—										
" 31	To restore balance to £30.....	P.C.							19	5	6
" 31	Ledger Cr. Folio....	18	£25	0	0						
" 31	" Balances carried down	✓				137	7	8	1505	1	6
						£168	10	0	£6480	18	6

JOURNAL

1909.			£	s.	d.	£	s.	d.
Mar. 1	Sundries	Dr.						
	To Sundries—							
	Cash.....	C.B.	2,049	16	6			
	Stock, Coffee on							
	hand.....	24	4,065	0	0			
	Tea on hand	24	240	0	0			
	Lease of warehouse							
	and land.....	2	1,500	0	0			
	Francis & Co.....	6	65	10	0			
	Furniture and Fix-							
	tures.....	8	120	0	0			
	Wynad Coffee Co.	5				2,050	16	5
	Capital Account,							
	J. Harris.....	1				5,989	10	1
	Being Assets, Lia-							
	bilities, and Capital							
	at the commence-							
	ment of business.							
			£8,040	6	6	£8,040	6	6
22	Freehold Premises Dr.	4		0	0			
	To R. Levy.....	11				3,000	0	0
	For purchase price of							
	4500 Sq. ft. of land							
	at 10/- per sq. ft.							
27	Discount Account Dr.	18	4	10	0			
	To Wrightson Bros.	9				4	10	0
	Account allowed							
	them on payment							
	by acceptance.							
31	Trading Account Dr.	29	4,805	0	0			
	To Stock Account—							
	For stock as at							
	March 1, 1909, trans-							
	ferred.							
	Coffee.....	24				4,065	0	0
	Tea.....	24				240	0	0
31	Trading Account Dr.	29	1,867	0	0			
	To Sundries—							
	Viz. Purchases Ac-							
	count—							
	Coffee.....	26				1,592	10	0
	Tea.....	26				280	0	0
	Returns Inwards Ac-							
	count—							
	Coffee.....	28				29	0	0
	Tea.....	28				15	10	0
	For transfers.							
31	Sundries	Dr.						
	To Trading Account	20				4,047	0	0
	Viz. Sales Ac-							
	count—							
	Coffee.....	25	3,288	0	0			
	Tea.....	25	545	10	0			
	Returns Outwards							
	Account—							
	Coffee.....	27	218	10	0			
	Tea.....							
	For transfers.							
	Carried forward ...		£13,228	10	0	£13,228	10	0

JOURNAL—continued

1909.			£	s.	d.	£	s.	d.
Mar. 31	Brought forward...		13,223	10	0	13,223	10	0
	Stock Account Dr.							
	Viz. Coffee.....	24	2,950	15	0			
	Tea.....	24	30	0	0			
	To Trading Account	29				2,980	15	0
	For Stock on Hand at							
	March 31, 1909.							
" 31	Trading Account Dr.	29	855	15	0			
	To Profit and Loss							
	Account.....	30				855	15	6
	For Gross Profit for							
	the month of March							
	transferred.							
" 31	Depreciation Account							
	Dr.	21	9	10	8			
	To Leasehold Land							
	and Buildings.....	2				8	6	8
	Fixture and Fit-							
	tings.....	3				1	4	0
	For depreciation for							
	one month written							
	off these accounts.							
" 31	Profit and Loss Ac-							
	count .....Dr.	30	85	0	0			
	To Reserve for Bad							
	and Doubtful							
	Debts.....	20				85	0	0
	For provision against							
	loss on Francis &							
	Co.'s debt.							
" 31	Profit and Loss Ac-							
	count.....Dr.	30	149	8	11			
	To Sundries, viz.—							
	Wages and Salaries.	14				25	15	0
	Postages and Tele-							
	grams.....	15				1	18	0
	Travelling Expenses	16				4	3	9
	General Expenses...	17				60	15	3
	Discount.....	18				11	10	0
	Depreciation.....	21				9	10	8
	Insurance.....	19				0	2	6
	Bank Charges and							
	Discount.....	22				8	15	5
	Carriage and Cartage	23				26	18	4
	For Balances trans-							
	ferred.							
31	Profit and Loss Ac-							
	count.....Dr.	30	621	6	1			
	To J. Harris, Capital							
	Account.....	1				621	6	1
	For Net Profit for the							
	month of March now							
	transferred.							
			£17,925	5	8	£17,925	5	8

NOTE.—As was explained when dealing with the Journal proper, many of the above items would, in actual practice, be dealt with by the majority of accountants by means of *direct* transfers from one Ledger account to another. It has been thought best, however, to set them out in full for the guidance of the student.

PURCHASES BOOK

Date.	Particulars.	Ledger Folio. (Cr.)	Coffee.			Tea.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.
1909.											
Mar. 3.	<i>Produce Importing Co., Ltd.—</i> 200 bags of Wynaad coffee at 50s..... 100 chests of Silhana Tea at 46s..	7	500	0	0	280	0	0	780	0	0
„ 20	<i>Wynaad Coffee Co., Ltd.—</i> 500 bags of coffee at 46s., less 5 per cent. Trade Discount.....	5	1,092	10	0				1,092	10	0
	Debit Ledger Folio..	26	£1,592	10	0	£280	0	0	£1,822	10	0

SALES BOOK

Date.	Particulars.	Ledger Folio. (Dr.)	Coffee.			Tea.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.
1909.											
Mar. 6	<i>Northern Stores, Ltd.—</i> 500 bags of coffee, medium, at 56s., less 2 per cent. Trade Discount. 200 chests of tea at 50s. net	8	1,372	0	0	500	0	0	1,872	0	0
„ 12	<i>Francis & Co.—</i> 100 bags of coffee at 60s., less 2½ per cent. Trade Discount	6	292	10	0				292	10	0
„ 19	<i>Northern Stores, Ltd.—</i> 500 bags of coffee at 58s. net..... 5 chests of tea at 62s. net.....	8	1,450	0	0	15	10	0	1,465	10	0
„ 25	<i>Wrightson & Co.—</i> 50 bags of coffee at 52s. per bag net	9	180	0	0				180	0	0
	Credit Ledger Folio	25	£3,244	10	0	£515	10	0	£3,760	0	0

RETURNS INWARDS BOOK

Date.	Particulars.	Ledger Folio. (Cr.)	Coffee.			Tea.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.
1909.											
Mar. 19	Northern Stores, Ltd.— 5 chests of tea, invoiced at 62s. per chest net, returned as unsuitable	8				15	10	0			
	10 bags of coffee invoiced at 58s. per bag net, returned as unsuitable	8	29	0	0				44	10	0
	Debit Ledger Folio	28	£29	0	0	£15	10	0	£44	10	0

RETURNS OUTWARDS BOOK

Date.	Particulars.	Ledger Folio. (Dr.)	Coffee.			Tea.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.
1909.											
Mar. 20	Wynaad Coffee Co., Ltd.— 100 bags of coffee, invoiced at 46s. per bag, less 5 per cent. Trade Discount, returned as "not up to sample" ..	5	218	10	0				218	10	0
	Credit Ledger folio	27	£218	10	0				£218	10	0

BILLS PAYABLE BOOK

Date.	Number.	Drawer.	In whose favour drawn.	For whose account accepted.	Where payable.	Date of Bill.	Tenor.	Due date.	Ledger folio. (Dr.)	Amount. £ s. d.	Remarks.
1909. Mar. 10	1	Produce Importing Co.	Produce Importing Co.	Produce Importing Co.	London and Eastern Bank, Ltd.	Mar. 9, 1909	Mar. 30, 1909		7	400 0 0	
									Credit L.F. 12	£400 0 0	

G 2

BILLS RECEIVABLE BOOK

Date.	Number.	Acceptor.	Drawer.	From whom received.	Where payable.	Date of Bill.	Tenor.	Due date.	Ledger folio. (Cr.)	Amount. £ s. d.	Remarks.
1909. Mar. 11	1	Northern Stores, Ltd.	Self.	Northern Stores, Ltd.	North British Bank, Ltd., York	Mar. 10, 1909	3 months' sight	June 14, 1909	8	1,000 0 0	
" 23	2	Francis & Co.	Self.	Francis & Co.	Finbury Banking Co., London	Mar. 22, 1909	30 days' sight	April 25, 1909	6	50 0 0	Endorsed by Brown & Co.
" 27	3	Wrightson Bros.	Self.	Wrightson Bros.	Bank of England	Mar. 27, 1909	3 months' date	June 30, 1909	9	125 10 0	
									Debit L.F. 13	£ 1,175 10 0	

LEDGER

1 Dr.		J. Harris, Capital Account		1 Cr.	
1909.		£	s. d.	1909.	£ s. d.
Mar. 31	To Balance carried forward..	✓	6,610 16 2	Mar. 1	By Balance J. 5,989 10 1
				" 31	" Net Profit for Mar. 1909..... J. 621 6 1
					£ 6,610 16 2
				1909.	
Mar. 31	By Balance brought down.....	✓	6,610 16 2	Mar. 31	By Balance brought down..... ✓ 6,610 16 2

2 Dr.		Lease of Land and Warehouse		2 Cr.	
1909.		£	s. d.	1909.	£ s. d.
Mar. 1	To Balance J.	1,500	0 0	Mar. 31	By Transfer to Depreciation Account.. J. 8 6 8
				" 31	" Balance carried forward.. ✓ 1,491 18 4
					£ 1,500 0 0
1909.					
Mar. 31	To Balance brought down....	✓	1,491 18 4		

3 Dr.		Furniture and Fixtures		3 Cr.	
1909.		£	s. d.	1909.	£ s. d.
Mar. 1	To Balance J.	120	0 0	Mar. 31	By Transfer to Depreciation Account..... J. 1 4 0
" 9	" Petty Cash—Door plates... P.C.	3	8 6	" 31	" Balance carried forward. ✓ 187 18 0
" 16	" Cash—Electric Light Fittings C.	5	7 9		
" 24	" Cash—Fixtures and Fittings at 45% Minories.. C.	10	5 9		
		£ 189	2 0		
1909.					
Mar. 31	To Balance brought down....	✓	187 18 0		

4 Freehold Premises (459c Minorities, E.C.) 4

Dr.				Cr.	
1900.		£	s	d.	
Mar. 22	To R. Levy purchase price of 459c Mi- nomies....	J.	3,000	0	0
		£	3,000	0	0

5	Wynaad Coffee Co., Ltd.	5
---	-------------------------	---

Dr.				Cr.	
		£	s. d.		£ s. d.
1909.				1909.	
Mar. 15	To Cash and Discount....	C.	1,010 0 0	Mar. 1	By Balance J.
" 20	" Returns 100 bags coffee			" 20	" 500 Bags coffee.... P.
" 31	" Balance carried forward..	R O.	218 10 0		
		✓	1,914 16 5		
			£ 3,143 6 5		
				1909.	
				Mar. 31	By Balance brought down.. ✓
					1,014 16 5

6 Francis & Co. 6

Dr.						Cr.						
			£	s	d.				£	s	d.	
1909.						1909.						
Mar. 1	To Balance	J.	65	10	0	Mar. 22	By Cash ..	C.	65	10	0	
" 12	" "100 bags coffee	S.	292	10	0	" 23	" Cash ..	C.	15	10	0	
" 22	" cheque dishonoured	C.	65	10	0	" 23	" Bill Re- ceivable..	B R.	50	0	0	
						" 31	" Balance carried forward..	✓	292	10	0	
			£	423	10	0			£	423	10	0
1909.												
Mar. 31	To Balance brought down....	✓	292	10	0							

7		Produce Importing Co., Ltd.										7
Dr.					Cr.							
1909.			£	s.	d.	1909.			£	s.	d.	
Mar. 10	To Bill payable	B.P.	400	0	0	Mar. 3	By 200 bags coffee...	P.	500	0	0	
" 10	" Cash and dis- count...	C.	830	0	0	" 3	" 100 chests tea.....	P.	230	0	0	
			£	730	0	0			£	730	0	0

8		Northern Stores, Ltd.										8
Dr.					Cr.							
1909.			£	s.	d.	1909.			£	s.	d.	
Mar. 6	To 500 bags coffee..	S.	1,372	0	0	Mar. 11	By Bill Receivable	B.R.	1,000	0	0	
" 6	" 200 chests tea.....	S.	500	0	0	" 12	" Cash and dis- count...	C.	872	0	0	
" 19	" 500 bags coffee..	S.	1,450	0	0	" 19	" Returns 5 chests tea.....	R.I.	15	10	0	
" 19	" 5 chests tea	S.	15	10	0	"	" 10 bags coffee..	R.I.	29	0	0	
						" 20	" Cash and dis- count..	C.	1,010	0	0	
						" 31	" Balance carried forward	✓	411	0	0	
			£	3,337	10	0			£	3,337	10	0
1909.												
Mar. 31	To Balance brought down....	✓	411	0	0							

9		Wrightson Bros.										9
Dr.					Cr.							
1909.			£	s.	d.	1909.			£	s.	d.	
Mar. 25	To 50 bags coffee ...	S.	130	0	0	Mar. 27	By Bill Receivable	B.R.	125	10	0	
						"	" Discount	J.	4	10	0	
			£	130	0	0			£	130	0	0

10 Property and Mortgage Trust, Ltd. 10
 (Loan Account on Mortgage)

Dr.				Cr.			
				1909.		£	s. d.
				Mar. 24	By Cash— Loan at 4 per cent. p.a. on mortgage of 459c Minorities		
						C.	1,500' 0 0
						£	1,500 0 0

11 R. Levy 11

Dr.				Cr.			
1909.		£	s. d.	1909.		£	s. d.
Mar. 22	To Cash deposit on pur- chase of 459c Minorities			Mar. 22	By Pur- chase price 459c Minorities		
		C.	1,000 0 0			J.	3,000 0 0
24	„ Cash— Balance of pur- chase money, 459c Mi- norities						
		C.	2,000 0 0				
		£	3,000 0 0			£	3,000 0 0

12 Bills Payable 12

Dr.				Cr.			
1909.		£	s. d.	1909.		£	s. d.
Mar. 30	To Cash— Produce Import- ing Co., Ltd., Bill honoured			Mar. 31	By Sun- drics, as per Bills Payable Book		
		C.	400 0 0			B.P.	400 0 0
		£	400 0 0			£	400 0 0

13		Bills Receivable						13		
Dr.									Cr.	
1909.			£	s.	d.	1909.		£	s.	d.
Mar. 31	To Sundries, as per Bills Receivable Book	B.R.	1,175	10	0	Mar. 28	By Cash—Northern Stores', Ltd., acceptance discounted.....			
						" 31	" Balance carried down. ...	C.	1,000	0 0
								✓	175	10 0
			£	1,175	10 0				1,175	10 0
1909.								£		
Mar. 31	To Balance brought down ...	✓		175	10 0					

14		Wages and Salaries										14		
Dr.													Cr.	
1909.			£	s.	d.	1909.				£	s.	d.		
Mar. 15	To Cash..	C.	12	10	0	Mar. 31	By Transfer to							
" 30	" Cash.....	C.	13	5	0		Profit and							
							Loss							
							Account.....	J.		25	15	0		
			£25	15	0					£25	15	0		

15					Postages and Telegrams					15				
Dr.										Cr.				
1909.			£	s.	d.	1909.				£	s.	d.		
Mar. 31	To Petty Cash	P.C.	1	18	0	Mar. 31	By Transfer to Profit and Loss Account.....	J.		1	18	0		
			£1	18	0					£1	18	0		

16			Travelling Expenses						16		
Dr.									Cr.		
1909.			£	s.	d.	1909.			£	s.	d.
Mar. 31	To Petty Cash	P.C.	4	3	9	Mar. 31	By Transfer to Profit and Loss Account.....	J.	4	3	9
			£4	3	9				£4	3	9

17

General Expenses

17

Dr.				Cr.			
1909.			£ s. d.	1909		£ s. d.	
Mar. 31	To Petty Cash, viz.—			Mar. 31	By Transfer to Profit and Loss Account	J.	60 15 2
	Stationery.....	P.C.	1 8 3				
	Housekeeper (Fires and cleaning).....	P.C.	6 13 3				
	„ Repairs.....	P.C.	8 9				
„ 31	„ Balance carried forward (being provision for Expenses due but unpaid)...	✓	52 10 0				
			£60 15 3				£60 15 3
				1909.			
				Mar. 31	By Balance brought forward	✓	52 10 0

18

Discount Account

18

Dr.				Cr.			
1909.			£ s. d.	1909		£ s. d.	
Mar. 27	To Wrightson Bros.....	J.	4 10 0	Mar. 31	By Sundries, as per Cash Book	C.B.	23 0 0
„ 31	„ Sundries, as per Cash Book	C.B.	32 0 0	„ 31	„ Transfer to Profit and Loss Account	J.	11 10 0
			£36 10 0				£36 10 0

19

Insurance

19

Dr.				Cr.			
1909.			£ s. d.	1909.		£ s. d.	
Mar. 30	To Petty Cash—1 years' Fire Insurance Premium paid in advance as from Mar. 1, 1909	P.C.	1 10 0	Mar. 31	By Transfer to Profit & Loss Account.....	J.	0 2 6
			£1 10 0	„ 31	„ Balance carried forward	✓	1 7 6
							£1 10 0.
1909.							
Mar. 31	To Balance brought forward	✓	1 7 6				

24 Cr. Stock Account

Date.		Coffee.	Tea.	Total.	Date.	Coffee.	Tea.	Total.							
		£	s. d.	£	s. d.	£	s. d.	£	s. d.						
1909. Mar. 1	To Balance. J.	4,065	0 0	240	0 0	4,305	0 0	1909. Mar. 31	By Transfer to Trading Account... J.	4,065	0 0	240	0 0	4,305	0 0
1909. Mar. 31	To Stock ... J.	2,950	15 0	30	0 0	2,980	15 0			£4,065	0 0	£240	0 0	£4,305	0 0

	Dr.	Cr.
Sales Account		
25		25

Date.		Coffee.		Tea.		Total.		Date.		Coffee.		Tea.		Total.	
		£	s. d.	£	s. d.	£	s. d.			£	s. d.	£	s. d.	£	s. d.
1909.								1909.							
Mar. 31	To Transfer to Trading Account...	J.						Mar. 12	By Cash Sales.	C.					
								" 31	" Cash Sales.	C.	7	10 0	30	0 0	37
								" 31	" Sales for the month as per Sales Book...	S.	31	0 0			31
											3,214	10 0	515	10 0	3,729
											£3,255	0 0	£545	10 0	£3,800

26 Dr.		Purchases Account										26 Cr.	
Date.		Coffee.	Tea.	Total.	Date.		Coffee.	Tea.	Total.				
		£ s. d.	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.			£ s. d.	
1900.					1900.								
Mar. 31	To Sundry Purchases on credit for the month as per Purchases Book. P.	1,502 10 0	230 0 0	1,822 10 0	Mar. 31	By Transfer to Trading Account... J.	1,502 10 0	230 0 0	1,822 10 0				
		£1,502 10 0	£230 0 0	£1,822 10 0			£1,502 10 0	£230 0 0	£1,822 10 0				

27 Dr.		Returns Outwards										27 Cr.	
Date.		Coffee.	Tea.	Total.	Date.		Coffee.	Tea.	Total.				
		£ s. d.	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.			£ s. d.	
1900.					1900.								
Mar. 31	To Transfer to Trading Account... J.	218 10 0		218 10 0	Mar. 31	By Sundry Returns for the month as per Returns Outwards Book R.O.	218 10 0		218 10 0				
		£218 10 0		£218 10 0			£218 10 0		£218 10 0				

28 Dr. Returns Inwards 28 Cr.

Date.	Coffee.	Tea.	Total.	Date.	Coffee.	Tea.	Total.
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1909.							
Mar. 31				1909.			
To Returns Inwards for the month as per Returns Inwards Book..... R.I.				Mar. 31	By Transfer to Trading Account... J.		
	29 0 0	15 10 0	44 10 0			15 10 0	44 10 0
	£29 0 0	£15 10 0	£44 10 0				
					£29 0 0	£15 10 0	£44 10 0

J. HARRIS.

29 Dr. Trading Account for the month of March 1909 29 Cr.

Date.	Coffee.	Tea.	Total.	Date.	Coffee.	Tea.	Total.
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1909.							
Mar. 1				1909.			
To Stock J.	4,065 0 0	240 0 0	4,305 0 0	Mar. 31	By Sales—		
To Purchases—					Coffee.... 3,283 0 0		
Coffee... 1,592 10 0					Less Re-		
turns .. 218 10 0					turns... 29 0 0		
Tea..... 230 0 0	1,374 0 0				J.	3,254 0 0	
Balance, being Gross Profit, transferred to Profit and Loss Account.....					Tea..... 545 10 0		
					Less Re-		
					turns... 15 10 0		
					J.		
					„ Stock on Hand as per valuation		
					J.		
						530 0 0	3,784 0 0
						30 0 0	2,980 15 0
						£2904 15 0	£6711 15 0

J. HARRIS.

Profit and Loss Account for the month of March 1909

30

Dr.

Cr.

30

1909.		1909.			By Gross Profit brought from Trading Account.....			J.		
Mar. 31		£	s.	d.	Mar. 31		£	s.	d.	
Mar. 31	To Wages and Salaries	J.	25	15	0		855	15	0	
" 31	" Postages and Telegrams	J.	1	18	0					
" 31	" Travelling Expenses	J.	4	3	9					
" 31	" General Expenses	J.	60	15	3					
" 31	" Discount	J.	11	10	0					
" 31	Depreciation—									
	Fixtures and Fittings 1 4 0									
	Leasehold Land..... 8 6 8									
" 31	Reserve for Bad and Doubtful	J.	9	10	8					
" 31	Debts.....	J.	85	0	0					
" 31	Insurance.....	J.	0	2	6					
" 31	Bank charges and Bank dis-									
" 31	count.....	J.	8	15	5					
" 31	Carriage and Cartage.....	J.	26	18	4					
" 31	Balance, being Net Profit for									
	the month, transferred to									
	J. Harris's Capital Account	J.	621	6	1					
			£855	15	0		£855	15	0	

J. HARRIS.

TRIAL BALANCE, March 31, 1909

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
1	J. Harris's Capital Account				5,989	10	1
2	Lease of Land and Warehouse... ..	1,500	0	0			
3	Furniture and Fixtures Account ...	139	2	0			
4	Freehold Premises Account	3,000	0	0			
5	Wynaad Coffee Co.				1,914	16	5
6	Francis & Co.	292	10	0			
8	Northern Stores, Ltd.	411	0	0			
10	Property and Mortgage Trust, Ltd. (Over Account).....				1,500	0	0
13	Wages and Salaries	175	10	0			
14	Postages and Telegrams	25	15	0			
15	Travelling Expenses	1	18	0			
16	General Expenses	4	3	9			
17	Discount Account	8	5	3			
18	Insurance	11	10	0			
19	Bank Charges and Bank Discount ..	1	10	0			
22	Carriage and Cartage	8	15	5			
23	Stock (March 1, 1909)—	26	18	4			
24	Coffee	4,065	0	0			
	Tea	240	0	0			
26	Purchases Account	1,822	10	0			
25	Sales Account.....				3,828	10	0
28	Returns Inwards	44	10	0			
27	Returns Outwards				218	10	0
P.C.	Petty Cash	30	0	0			
C.B.	{ Cash at Bank	1,505	1	6			
	{ Office Cash	137	7	3			
		13,451	6	6	£13,451	6	6

CHAPTER XII

CHEQUES AND BILLS OF EXCHANGE

CHEQUES

It has already been stated that, in Great Britain, the customary method of transferring money from one person to another, in commercial circles, is by employment of the Cheque system. The more general use of Cheques has been fostered in recent years by the establishment of numerous Banks throughout the country, many of which are branches of powerful financial institutions, having their head offices in London. The extent to which the Cheque is now used in monetary transactions can be readily computed from the total amount of such documents passing through the Bankers' Clearing House. The total Cheques and bills "cleared" (*i. e.* paid) in this way during the year 1919 was nearly twenty-eight and a half thousand million pounds sterling.

The many disadvantages of discharging commercial obligations by means of coin have already been touched upon. These disadvantages were not by any means altogether removed by the issue of bank-notes, notwithstanding their portability. The very strength of the Bank of England note is, in some respects, a drawback, since such notes are payable in gold at sight to any holder.

The fact that Cheques have largely driven bank-notes and coin out of circulation, combined with their general convenience, and the safeguards which can be appended to them have, probably, had no small part in the development of trade which recent years have witnessed.

The utility and advantages of Bills of Exchange in commercial transactions, both to the person "accepting" them and to the person "drawing" them, have already been referred to briefly, and it is now proposed to describe the main features of Cheques and Bills of Exchange in the forms in which they are usually met with in actual business transactions.

Several varieties of Cheque forms are in current use, their general principle being the same, the difference between the varying types of Cheques being chiefly dependent upon the way in which the money is to be placed in possession of the holder of the Cheque. As the student is probably aware, it is possible by the addition of certain words to a Cheque, to render it less useful to, and less easily converted into money by, any person obtaining possession of it wrongfully.

A Cheque may be defined as a written order drawn by a customer of a Bank upon that Bank directing the payment of a specified sum of money from such customer's banking account; the statutory definition of a Cheque being "a Bill of Exchange drawn on a Banker payable on demand."

A specimen form of an "Order" Cheque appears on page 21.

The Cheque there illustrated directs the payment of £120 to "Messrs. Finch & Walker or Order" from J. Bird & Co.'s banking account with the Union of London and Smith's Bank, Limited.

This Cheque, being an "Order Cheque," requires "endorsement" by the persons to whom it is made payable (Messrs. Finch & Walker), or, in other words, they must write their name on the back of the Cheque before it can be presented for payment. If the words "or Bearer" had been inserted in place of the words "or Order" the Cheque would be termed a "Bearer Cheque," and would be payable without any endorsement. It will be obvious that the requisition of an endorsement constitutes an additional safeguard, and, for this reason, "Order" Cheques are much more frequently met with in commerce than "Bearer" Cheques, although the latter are still used to a large extent between members of the London Stock Exchange.

A large proportion of the Cheques drawn in discharge of financial obligations are never presented for actual encashment over the Bank counter, they are paid by the holders into their own Bank for collection, and in this manner reach the "Clearing House" in due course, where they are cancelled against one another, when the claims of the various Banks, as between themselves, are daily adjusted (see p. 458).

The "Payee" of an "Order" Cheque (*i. e.* the person to whom such a Cheque is expressed to be payable) can,

if he so desire, direct, when endorsing the Cheque, the payment of it to some third party, *e. g.* if Messrs. Finch & Walker had desired to send the Cheque described above to Horace James for their credit, they could have endorsed it as follows—

“Pay Horace James or Order.

“Finch & Walker.”

and in this event the new “**Endorsee**,” Horace James, must himself endorse the Cheque in order to obtain payment of it.

“Order” Cheques, inasmuch as they need endorsement, can only be drawn in favour of persons or corporate bodies; but “**Bearer**” Cheques, as they need no endorsement, can be drawn for, or in favour of, “expenses” or particular purposes—

e. g. “Pay Wages . . . or Bearer.”

“Pay Cash . . . or Bearer.”

One advantage of this course lies in the fact that a memorandum of the specific purpose for which the cheque was drawn is recorded upon the counterfoil of the cheque, and is available for future reference in case of need.

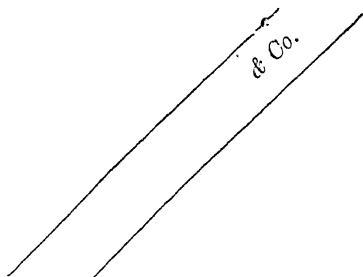
An additional safeguard can be imparted to a Cheque by the use of what is commercially known as a “**Crossing**.”

This practice originated many years ago with the London Clearing House, and was subsequently declared to be of legal validity, and has now become almost universal. If two transverse parallel lines, with or without the words “and Company,” or any abbreviation thereof, be drawn across the face of a Cheque it will not be paid by the Banker upon whom it is drawn to any one presenting it except another Banker, and if the name of any particular Banker is inserted between the two parallel lines, the Cheque will not be paid to any one except that particular Banker.

The effect of this proviso is that a “crossed Cheque,” in which the name of a particular Banker has not been inserted in the crossing, can only be converted into money by a person who possesses an account with a Banker, and that a crossed Cheque in which the name of a particular Bank is inserted can only be cashed by being paid by a customer of that Bank to his banking account. A crossed Cheque cannot legally be paid over his counter by the Banker upon whom it is drawn, even though presented for payment by the person in whose favour it is drawn. These

provisions obviously render a crossed Cheque more difficult of encashment by a person obtaining wrongful possession of it than is the case with a Cheque which is not "crossed" (called an "open Cheque"). The custom of paying accounts by means of crossed Cheques transmitted through the post has become well nigh universal now-a-days among traders, and the "crossing" upon such Cheques, restricting their usefulness to those members of the community who possess banking accounts, has tended to encourage the rapid growth of this custom.

The form of crossing upon a Cheque, in cases where it is not "crossed" to any particular Banker, is as under—



The above form of crossing is referred to as a "general crossing."

Other forms of "crossings" which will be found in common use are as illustrated hereunder—

(1)	(2)	(3)	(4)	(5)	(6)
<i>Child & Co.,</i>	<i>Williams Deacon's Bank, Ltd.</i>	<i>Child & Co. Not negotiable.</i>	<i>Barclays Bank, Ltd. For credit of Payees only. Not negotiable.</i>	<i>Lloyd's Bank, Ltd. For credit of J. Smith. Not negotiable.</i>	<i>A/c Payees only.</i>

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Form 1 is the simple form of a "special crossing," which restricts the Cheque from being cashed except through the particular Banker whose name is written in the crossing.

Form 2 is a similar crossing wherein the name of a Joint Stock Banking Company is inserted.

Form 3 is a form of "special" crossing containing, in addition to the Banker's name, the words "not negotiable."

A Cheque, like a Bill of Exchange or a Promissory Note, is a "negotiable instrument." A "negotiable instrument" is one which, if taken by any person in good faith, and in exchange for value, becomes the property of such holder, and can be enforced by him, as regards the payment of it at its due date, notwithstanding any defects of title to the document which may exist on the part of the person from whom such holder acquired it.

For example, if a person, in good faith and for value, acquires from any one who has stolen it, a Cheque drawn by a third party, the third party cannot refuse to honour the Cheque on the ground that it has been stolen. The fact that the holder of the Cheque in question has received it not knowing that it was stolen property, and has given value for it, places him in an indisputable position legally as regards his ability to enforce the payment of it. A negotiable instrument may thus become analogous to coin of the realm; and, in point of fact, the employment of Cheques in making money payments has, to a very large extent, taken the place of the use of coin in commercial transactions.

This "negotiability," although most valuable in the case of Bills of Exchange, is a somewhat inconvenient characteristic from the point of view of the drawer of a Cheque in the event of the Cheque failing to reach the hands of the person for whom it was destined. The drawer of a Cheque which is "negotiable" may be forced to pay it, when it is in the hands of a third party, if it should be stolen in course of transit by an individual who sells it to such third party; and, in addition to such payment, he will still be in the position of not having discharged his obligation to the person to whom the Cheque was originally sent.

In order to meet this objection it is legally permissible to add to the crossing of a Cheque the words "not negotiable." The addition of these words does not actually make a Cheque not *transferable* from one party to

another, but the qualification has the effect of preventing the holder from passing on a better title to the document than he has himself, and generally subjects the Cheque so crossed to the ordinary provisions of the law regarding property, viz. that a purchaser cannot acquire any better title to property than was possessed by the vendor of it.

If a Cheque so marked "not negotiable" be stolen, the taint of theft attaches to it, and prevents any successive holder of it from acquiring any better title to the document than was possessed by the thief himself, and a person who steals property obviously acquires no legal ownership to it at all.

The drawer of a "not negotiable" Cheque can thus refuse to honour it if it is stolen, whereas the drawer of a cheque which is not so marked need not pay any holder who took it either *mala fide* or without value, but must pay an honest "holder for value."

Bills of Exchange and Promissory Notes, together with certain other sorts of commercial documents* (*e.g.* Foreign Government Bonds payable to Bearer), are also "negotiable instruments"; the above-mentioned provisions as to the use of the words "not negotiable" in their protective sense apply, however, only to crossed Cheques. Negotiable instruments of other classes cannot be deprived of their negotiable characteristics by the addition of any such words, nor, seeing that other analogous documents are far less easy of prompt conversion into money, does there appear to be any urgent need for such qualifying conditions.

Forms 4 and 5 are examples of "not negotiable" crossings wherein a direction is added as to the particular account to which the Cheque is to be credited by the collecting Banker, *e.g.* "for credit of payees only," or "for credit of J. Smith." Such additions are very frequently met with in practice, but their use is not authorized by any statute; the precise legal effect of such adjuncts is thus uncertain, but, in all probability, they would be held to operate legally as a warning to the collecting Banker, and as indicating the person for whose behalf he is to collect the Cheque. Their ordinary commercial signification is, of course, that the collecting Banker is only to collect such Cheques on behalf of the person specified therein, but it cannot be definitely

* Bills of Lading, if endorsed, are transferable by simple delivery; they do not, however, possess the other characteristics of negotiable instruments.

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affirmed that such is their legal meaning, although it may be assumed that it is probable that this is the case.

Form 6.—This is a crossing much in use in paying private personal accounts, in cases where the name of the payee's Banker is unknown.

Cheques are usually drawn upon the special printed forms supplied in books by Bankers to customers keeping accounts with them; they must bear a twopenny stamp, and books of cheque forms are supplied already stamped, the cost of such stamps being debited to the customer. In a legal sense Cheques may be drawn upon any piece of paper, and need not necessarily be upon the special forms supplied by the Banks, but the latter wisely discountenance the use of any forms other than those supplied by themselves. In the case of a Cheque so drawn on an ordinary plain piece of paper the inland revenue stamp need not be impressed as is the case where the Bank's own forms are purchased by the customer ready stamped; an ordinary twopenny "postage and inland revenue" stamp is sufficient if cancelled by the drawer at the time of signing the Cheque.

Of late years a custom has arisen, in the case of many large mercantile firms, of printing on their Cheque forms a form of receipt to be signed at the foot by the person in whose favour the Cheque is drawn; the Cheque, when returned by the Bank to the drawer after payment, thus becomes a convenient form of receipt, and contains the full history of the payment made. The Cheque employed in such cases usually takes the following form (but see p. vi):

No. _____ *London* _____ 19....

To BARCLAYS BANK, LTD. STAMP
2d.

Pay to the order of _____

the sum of _____ subject to

the receipt at the foot hereof being duly signed.

(Signature of drawer) _____

£ _____

Form of Receipt.

Received the above-mentioned sum of _____

(Signature of payee) _____

_____ STAMP _____

Dated this _____ 190

Additional space is sometimes supplied to allow the entry of brief particulars of the purpose for which the money was paid, *e.g.* "for goods supplied."

Bankers "**stop**," *i.e.* refuse, payment of cheques drawn upon them under the following circumstances—

- (1) Knowledge of Bankruptcy or an "act of Bankruptcy," on the part of the drawer.
- (2) Notice of the drawer's death.
- (3) Receipt of "garnishee order," *i.e.* an order from a court of law, obtained by one of the customer's creditors, placing a legal encumbrance on the customer's bank balance.
- (4) Notice from the drawer instructing the Banker to stop payment of the Cheque.
- (5) Want of funds, *i.e.* an insufficient balance to the customer's credit.
- (6) Cheque "out of order," *i.e.* when incorrectly drawn or containing some informality.

Cheques, the payment of which has been refused, are marked by Bankers as follows—

I/F (Insufficient Funds)

R/D (Refer to Drawer).

N/S (Not Sufficient Funds).

"Not in order."

"Figures and writing disagree."

"No effects" (insufficient balance).

"Effects not cleared."

"Account closed."

"Drawer dead," etc., etc.

BILLS OF EXCHANGE

The modern Bill of Exchange is a versatile instrument of credit, the general nature and principal uses of which have been broadly outlined in Chap. II; there remain to be explained, in more detail, some of the most common forms and varieties in which these documents are met with.

A Bill of Exchange is legally defined "as an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to, or to the order of, a specified person or to bearer."

A Cheque comes, as will be seen, within the limits of this definition, and Cheques therefore rank legally as

Bills of Exchange drawn on a Banker and payable on demand.

In 1882 the multitude of legal decisions affecting Bills of Exchange were codified by the Bills of Exchange Act, which, with a few amendments, still applies.

As has been previously explained, the person to whom a Bill of Exchange is addressed (the "**Drawee**") signifies his promise to pay the bill at maturity by writing his name transversely across the face of the bill, adding, in many cases, the word "accepted," and frequently indicating a particular Bank or other place where the bill is to be presented when it falls due, and where it will be paid upon presentation. If the drawee of the bill (who by thus undertaking to pay it becomes the "**Acceptor**") indicates, as he usually does, his own Bank as the place where the bill is to be payable, such form of acceptance operates *ipso facto* as an authority to his Banker to pay the bill on his behalf when it falls due, and to charge him (the customer) with the amount so disbursed.

Bills of Exchange are commonly drawn "to the order" of the drawer, or of some other party nominated by the drawer. The employment of such words involves the "endorsement" of the bill by such "payee," just as was explained to be the case with reference to a Cheque when drawn "to order." An endorser may, if he so desires, indicate on the back of the bill, when endorsing it, the name of a person to whom he wishes to direct payment of the bill to be made, and this direction in turn necessitates the endorsement of the bill by such other person. This process of "**endorsing over**" a Bill of Exchange from one payee to another is very prevalent in commerce, especially when a bill changes hands many times in the course of its short life, and the successive endorsements frequently occupy the whole of the back of the bill as well as a further slip of paper (called an "**Allonge**") which has to be gummed to the bill in order to accommodate further endorsements. It must be remembered that the drawer and all the successive endorsers are each of them liable to pay the full amount of the bill if it should be dishonoured by the acceptor at maturity. A good Bill of Exchange containing the signatures, in one capacity or another, of several firms of established reputation furnishes a triple, quadruple, or even greater combination of guarantors for the payment of the amount of the bill at maturity. The

favour with which Bankers regard good bills as a convenient form of temporary liquid investment, is thus easily comprehensible. It will also be obvious to the student that the Bill of Exchange offers a simple and efficacious device for financing commercial transactions, the acceptor of the bill frequently having the opportunity of selling the goods against which the bill is drawn before he has to provide for the payment of it.

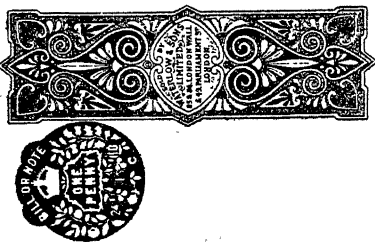
The ordinary form of an "Inland" Bill of Exchange (*i. e.* one drawn for use in this country) is given on page 193.

This bill would fall due on November 30, 1908 (allowing for the three "days of grace"), and would need endorsement by Messrs. Heywood & Platts.

The circumstances out of which such a bill might be assumed to arise would be that Mr. John Harman, having, as the result of some transaction, become the debtor of Messrs. Heywood & Platts, the latter have "drawn upon" him for the amount due by means of a bill as illustrated. In due course Mr. John Harman will "accept" the bill by writing his signature across it, with or without the word "accepted."

On maturity the bill will be presented by the holder of it (usually through the Bankers of such holder) wherever it has been made payable by the drawee. If the acceptor has made the acceptance payable at his Bankers, but on its maturity has not sufficient funds with the latter to meet the bill, they will refuse to pay it, and the bill will consequently be returned "dishonoured" to the holder. Before being returned, it will be handed, in the absence of instructions to incur no charges, by the collecting Banker to a Notary Public, in order that the latter may himself re-present the bill to the bank in question, and may formally record the fact of its having been dishonoured. The Notary Public, in such a case, attaches a small gummed ticket to the bill, containing his name, a note of his charges (usually a few shillings) for "noting" non-payment, together with the reason given for such non-payment upon presentation of the bill. The holder of the bill is allowed one clear day in which to endeavour to obtain payment from any of the parties to the bill. If subsequently desired, the Notary is then, after the above formalities, in a position to draw up a formal document, a "Protest," setting forth that the bill has not been met at maturity; in the case of an inland bill, the extra expense entailed by this procedure is very seldom deemed

INLAND BILL OF EXCHANGE. — N.B. Stamp now 2d.



N^o 156 £ 4 . 19 . 7 , LONDON November 24th 1908
Three days after date pay to our Order
Four pounds nineteen shillings and sevenpence Value received.
To Mr John Harman, Keywood & Platts
52 George Street,
Worcester.

PROMISSORY NOTE.

£ 20 . 18 . 6 Coventry, 12 December 1908
On Demand I promise to pay
Messrs James Elkington & Co. or Order
Twenty pounds eighteen shillings and sixpence. Value received.
Ernest Ballagay



necessary, except in cases where legal action to enforce the bill is contemplated. "Foreign" bills (*i. e.* bills drawn or payable abroad) are almost invariably "protested" as well as "noted," as the formal protest becomes legally necessary.

Upon the dishonour of a bill, the holder can call upon the drawer or any of the endorsers to pay it, but any person liable by reason of his signature appearing on the bill can, if he honours it himself, recover the money from any of the other persons liable on the bill previously to himself, *e. g.* an endorser honouring a bill can recover the money from any other endorser whose signature appeared upon the bill prior to his own, or from the drawer of the bill, or from the acceptor himself. Similarly the drawer, if called upon to pay the bill, can recover from the acceptor. The holder of a dishonoured bill must, *immediately* upon its dishonour, give notice of the fact of such dishonour to all persons liable upon the bill (except the acceptor) as otherwise they may become legally relieved from liability to pay the bill.

The charges for noting must be paid by the holder of a dishonoured bill to his Banker in the first instance, but, together with the amount of the bill itself, they can be thereafter recovered from the persons liable on it.

A dishonoured bill is frequently "**renewed**," in whole or in part, *i. e.* a fresh bill for the amount agreed upon is given between the original parties. This fresh bill ranks, however, for book-keeping purposes, as a new transaction.

Foreign bills, *i. e.* bills drawn in one country but becoming payable in another, resemble inland bills in their main characteristics, but are the subject of certain special circumstances in practice. Foreign bills, *e. g.* bills drawn in Japan upon a merchant in London, are frequently discounted by their drawers with foreign Banks directly after they have been drawn and before they have been accepted, the Banks relying in these cases upon the reputation of the drawer, and upon his ability to pay the bill if it is subsequently returned to them unpaid. Such bills are transmitted by the foreign Banks to their banking correspondents in this country for presentation on their behalf to the British firms upon whom they are drawn. If, when a bill so reaches London for acceptance, the person upon whom it is drawn refuses to accept it, the same consequences ensue as if the bill had been dishonoured at maturity, *i. e.* the drawer becomes immediately liable to

pay it, and the endorsers (if any there be) also become liable to honour it, notwithstanding the fact that its nominal due date has not yet arrived, and the bill passes at once to a Notary for "noting" and "protest."

A British merchant upon whom a bill has been drawn by one of his foreign creditors cannot be compelled to accept the bill by the Bank holding it, but his refusal to accept it would, in ordinary circumstances, be detrimental to the credit of the foreign drawer. If, as between the drawer and himself, there is a general arrangement for the acceptance of bills, refusal to carry out such an arrangement renders the British merchant liable to be sued for damages to the extent of the loss entailed to the foreign drawer.

Foreign bills are occasionally drawn in duplicate, or even in triplicate, this precaution being effected in case one of the set of bills should become lost in transit to this country. The practice of drawing foreign bills in sets is not so prevalent as in former years, except perhaps in the case of Russia. The regularity and reliability of the modern postal services have rendered such precautionary measures less necessary. In cases where a bill is duplicated the drawee will only "accept" one of the set of bills, and is, of course, only liable upon the one he accepts. The drawer is, however, liable upon each of the duplicates or triplicates in the event of their being fraudulently separated and negotiated.

Where bills are drawn in duplicate it frequently happens that the "first" of the set is presented to the drawee for acceptance, and that the "second" bears the endorsements; this occurs owing to the fact that the set of bills has become separated at some period of its existence for safety in transmission. In such a case the "first" and "second" together constitute one complete bill, and the fact of the acceptance and the endorsements appearing on separate parts of the bill is immaterial to its validity.

When a merchant abroad ships goods to this country he very frequently draws, and sells to his local Banker, a Bill of Exchange drawn upon the British merchant to whom the goods have been shipped, payable after a certain given period of time, such bill being drawn, in many cases, for the full invoice price of the goods, and, in other cases, for a portion only of the invoice price. In order to render this bill acceptable to the foreign Bank to

which it is presented for purchase, the foreign drawer attaches to the bill the "bills of lading," representing the goods shipped. These "**Bills of lading**" are the "negotiable documents," conferring the right to the ownership of the goods placed on board the vessel employed to bring them to this country. In so receiving the bill, "**with documents attached**," the Bank also secures the right to deal with the goods against which the bill has been drawn, and thus a valuable and tangible security, in addition to the drawer's personal responsibility, is obtained by the Banker when dealing with bills of this class. If, upon reaching this country, the bill is dishonoured by non-acceptance, the British agent of the foreign Banker can at once sell the goods on behalf of the foreign Banker on the British market, and the deficit then apparent (if any) can be recovered abroad by the foreign Banker from the drawer of the bill.

Such bills are termed "**Documentary bills**," and a very considerable part of the settlements for goods imported into this country is effected in this way. Where the British drawee of such a documentary bill is of established reputation the Bank holding the bill will frequently surrender to him the bills of lading (*i. e.* release to him the goods previously held as security against the bill) on receiving back the bill duly accepted; if, however, the drawee is not considered to be financially strong, the British Banker holding the bill will retain both the bill (when accepted) and the goods, releasing to the drawee portions of the latter in exchange for cash, as and when received, or permitting the drawee to redeem the bill in cash (and obtain the goods) at any time before its actual due date, subject to an allowance to him of interest on such prepayments.

The payment of a bill before it is legally due is styled "**taking up a bill under rebate**," and the allowance of interest upon such prepayments is termed "**Rebate**."

A form of foreign bill drawn in triplicate is given on the opposite page.

The period of time after the expiration of which a bill falls due is termed its "**Tenor**," and the following are some of the principal tenors employed—

"**On Demand**" means that the bill is to be paid immediately on presentation to the drawee, without the usual days of grace.

"**At Sight**" has the same significance as "on demand."

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FOREIGN BILL OF EXCHANGE IN A SET.



1876 Exchange for [redacted] London November 24th 1908

Ten Days after sight of this First of Exchange
(Second & Third of the same tenor and date unpaid) payable to the
order of The Hongkong and Shanghai Banking Corporation Ltd.

Value received. With Exchange and Bankers charges added

To Messrs Fox Munnich & Co.
The Bank, Shanghai

Heywood & Platts



Payable to



1876 Exchange for [redacted] London November 24th 1908

Ten Days after sight of this Second of Exchange
(First & Third of the same tenor and date unpaid) payable to the
order of The Hongkong and Shanghai Banking Corporation Ltd.

Value received. With Exchange and Bankers charges added

To Messrs Fox Munnich & Co.
The Bank, Shanghai

Heywood & Platts



Payable to



1876 Exchange for [redacted] London November 24th 1908

Ten Days after sight of this Third of Exchange
(First & Second of the same tenor and date unpaid) payable to the
order of The Hongkong and Shanghai Banking Corporation Ltd.

Value received. With Exchange and Bankers charges added

To Messrs Fox Munnich & Co.
The Bank, Shanghai

Heywood & Platts



Payable to

BILL OF LADING.

Received, in apparent good order and condition by **THE RED STAR STEAMSHIP COMPANY** in and upon the good ship *Red Star* whereof **James Brown** is master for this present voyage and now lying in the Port of New York and bound to Liverpool England

— American organs packed in cases

being marked and numbered as in the margin and are to be delivered in the like order and condition at the aforesaid port of Liverpool the act of God enemies barratry of the master or crew restraint or arrest by princes peoples and rulers fire and all and every other dangers and accidents of the seas rivers and navigations or whatever kind or nature soever excepted unto
to his assigns he or they paying freight for the said goods
Pounds per ton delivered with primeage and average accustomed.

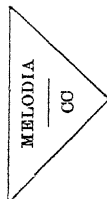
— ft. — in.	per 40 cu. ft.	£	:	:
tons	cwt.			
	@ per 2240 lbs.	£	:	:
		<hr/>		
		Total	£	<hr/>

Dated in New York the — day of — 190

James Brown, Master.

Note.—The above form has been simplified in order to save space. Most forms in actual use are somewhat wordy, but the above example sets out all essentials. Appended will be found the actual form of the Bill of Lading employed by the P. & O. Steam Navigation Company, which is reproduced with the kind permission of the Company.

**Red Star Steamship
Company, Limited.
New York—London.**



— to —

"**Three Months After Date**" means that the bill becomes due three months after the date appearing upon it, subject to the allowance of the three "days of grace," as already explained (page 26).*

"**At Sixty Days' Sight,**" or **Sixty Days After Sight,** means that the bill is payable sixty-three days (including the three days of grace) after it has been presented to the drawee for acceptance.

Bills payable at sight or in three to seven days are termed "*Short Exchange*," whilst those at sixty days or upwards are called "*Long Exchange*" Bills.

As between different countries certain definite periods of time have become recognized as the customary tenor for bills drawn between such countries; in these cases the customary period of time is termed the "**Usance**" for bills drawn between those particular countries. The usance current between any two particular countries depends, of course, upon the nature of the transactions between their respective merchants, upon the average time necessary to transmit goods and letters, and upon other similar circumstances, *e.g.* the "Usance" between the United States of America and London is "sixty days after sight." See Notes, p. 204.

Two types of bill which, although not uncommon, are not popular in financial circles are—(1) "**Accommodation Bills**" (familiarily known as "Kites"), and (2) "**House Bills**" (picturesquely described as "pig on pork"). The former bills are merely expedients for obtaining loans, and are drawn for the accommodation of one or other, or both, of the parties thereto, and do not represent any genuine "value received." The latter are bills drawn by a firm, or limited company, on itself as between different branches or agencies. Both these forms of bill are drawn solely for the purpose of being discounted by one or other of the parties thereto in order to obtain the use of the resulting proceeds.

In contrast to the legitimate trade facilities afforded by the Bill of Exchange in its genuine form, these latter types of bill illustrate the dangers attached to instruments of credit which can be created for speculative

* The great majority of inland trade bills are dated on the first of a month, and fall due therefore on the fourth of a month. So prevalent has this practice become that, in the yearly analysis of the London Clearing House, the figures for the fourth days of each month are separately stated.

purposes and without real produce, or any genuine trading transactions, behind them.

The *ad valorem* stamp duty payable on Bills of Exchange is as follows—When the amount due

Does not exceed £5, the stamp required is .	2d.
Exceeds £5 and does not exceed £10 .	2d.
„ £10 „ „ „ £25 .	3d.
„ £25 „ „ „ £50 .	6d.
„ £50 „ „ „ £75 .	9d.
„ £75 „ „ „ £100 .	1s.

and 1s. for every £100 and every fractional part of £100 when the bill exceeds £100.

Bills of any amount payable “At sight,” “On demand,” “On presentation,” or within “three days after date on sight,” need only a twopenny stamp.

If the bill covers interest as well as principal, the stamp need only cover the latter, unless the actual amount of the interest is included in the amount of the bill, in which case a stamp to cover the full amount must be affixed.

PROMISSORY NOTES

One other form of “negotiable instrument” which is to be met with in commercial practice requires brief mention, viz. the Promissory Note.

A form of Promissory Note is given on page 193, and its nature can, to a large extent, be gathered from the wording employed in the document itself.

A Promissory Note, drawn as above, is a “negotiable instrument,” and legal title to it can be acquired by a purchaser in good faith and for value, just as is the case with a Bill of Exchange.

A Promissory Note that is made payable “to order” (as above) requires endorsement in the usual manner by the person to whom it is expressed to be payable. Promissory Notes are not usually drawn “to bearer” except in the case of bank-notes; a bank-note is, in its legal aspect, a Promissory Note payable to bearer on demand issued by a Bank, and, being payable “to bearer,” does not, of course, need an endorsement.

The legal position of all parties whose names appear on a Promissory Note, as regards their liability to pay it to a third person holding it, corresponds with the position of the like parties in the case of a Bill of Exchange. The “maker” of the Promissory Note corresponds with the “acceptor” of a Bill of Exchange, the “payee” of a

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Promissory Note with the "payee" of a bill, and so forth. The rules set out above as to "dishonour," "noting," and "protest" apply also to Promissory Notes.

The employment of Promissory Notes as commercial paper in this country is restricted, and documents of this nature are rarely used in the payment of commercial obligations. Very commonly the amount covered by a Promissory Note is payable by instalments, upon each of which three days of grace are allowed.

Promissory Notes, like Bills of Exchange, require an *ad valorem* stamp based upon the amount of the note. There is one difference, however, between the rates of duty payable, viz. a Bill of Exchange payable "on demand" requires a two-penny stamp whatever be the sum payable, whereas a Promissory Note, payable on demand, requires to be impressed with a stamp based upon the sum for which the note is created.

EXERCISES

12A.

CHEQUES.

1. Define a Cheque.
2. Explain why payment by Cheque has attained so great a vogue in this country. Contrast the advantages of a Cheque as compared with those of a bank-note.
3. What is the difference between a Cheque drawn "to order" and one drawn "to bearer"?
4. Give a form of Cheque drawn by V. Montgomery on the United Banking Company of Great Britain, Ltd., London for £1,046 19s. 4d. dated May 1, 1909, payable to the order of H. Miles.
5. What is a negotiable instrument? Contrast the position of a person who has issued a document undertaking to pay a sum of money to a specified person—(1) when this document is a negotiable instrument, (2) when the document is not a negotiable instrument, assuming in each case that the document in question has been duly endorsed and has been subsequently stolen.
6. Mention five different types of negotiable instruments.
7. Is a Cheque drawn to the order of J. Jones and endorsed by the latter a negotiable instrument? Is a "Bearer" Cheque a negotiable instrument?
8. Explain the general form and uses of a "Crossed Cheque."
9. What difference exists as regards the legal effect between a Cheque crossed "Crossed & Co." and a similar Cheque crossed

Coutts & Co.
Not negotiable.

10. Does the fact that the words "not negotiable" appear on a Cheque absolutely forbid its being transferred by one person to another? To what extent do these words affect transfers of Cheques between persons?

12B.

CHEQUES.

1. Explain the legal effect of the following crossing appearing on a Cheque—

London County, Westminster & Parr's Bank, Ltd.
Not negotiable.
A/c Payee only.

2. What stamp is necessary upon a Cheque? Is an impressed stamp obligatory?

3. What legal steps must be immediately taken by the holder of a Cheque that is dishonoured?

4. Explain the following terms written by Bankers, upon occasion, on Cheques presented to them—

"R/D"; "N/S"; "Account closed."

5. Explain the following terms—

"Effects not cleared"; "Words and figures differ."

6. Upon the happening of what events may a Banker upon whom it is drawn refuse to honour a Cheque although sufficient money to pay it is standing to the credit of his customer's account?

7. Explain to what extent a Cheque and a Bill of Exchange possess the same characteristics, and to what extent they differ in form and use.

8. Is it possible to "cross" a Bill of Exchange or a Promissory Note?

9. Is it necessary that Cheques should invariably be drawn upon the engraved forms supplied by each Bank to its customers?

10. Give a form of Cheque which includes a form of receipt to be signed at the foot by the payee of the Cheque. Briefly discuss the advantages of Cheques of this type.

12C.

BILLS OF EXCHANGE.

1. Define a Bill of Exchange.

2. Explain briefly why Bills of Exchange are used to so large an extent in the settlement of commercial transactions, stating the benefits obtained by the drawer and the drawee when using this method of discharging the obligations between them.

3. Give a form of a Bill of Exchange for £120 drawn by J. Jones & Co. of Swansea upon R. Harris of London, accepted by the latter payable at the Bank of England, London.

4. What formalities have to be gone through in the case of dis-

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honour—(1) of an inland bill, (2) of a foreign bill drawn upon a merchant in this country?

5. Explain the liability—(1) of an acceptor of a bill, (2) of the drawer, (3) of the endorser. Compare the positions of these persons as regards liability upon the bill.

6. What is meant by a "documentary" bill? Why is it frequently easier to discount a documentary bill with a Banker than it is to discount a similar bill without "documents attached"?

7. Wilson & Co. of Calcutta on May 1, 1909, sell and ship to Brown Brothers of London by ss. *Hoogly* a quantity of jute for £1,000. Against this shipment they draw a bill upon Brown Brothers at three months' date for £900, "with documents attached" in favour of the National Bank of India, and discount the bill with the National Bank of India, Calcutta, for £885. Explain the nature of this transaction, give the form of the bill, and show the entries (in pounds sterling) requisite to correctly record the matter in Wilson & Co.'s books.

8. Show the entries requisite to record in Brown Brothers' books the various transactions set forth in Question 7, including payment of the bill at maturity.

9. Explain the functions of a "Notary" so far as they relate to Bills of Exchange.

10. What is meant by the terms "usance" and "tenor" as applied to Bills of Exchange? Explain the following terms used in connection with Bills of Exchange—

"At sight,"

"On demand,"

"Sixty days after sight,"

"Three months after Date,"

What are "days of grace"?

12D.

BILLS OF EXCHANGE AND PROMISSORY NOTES.

1. What stamp duty is payable upon Inland Bills of Exchange drawn for the following sums—

£75; £100; £100 15s.; £2,000; £3,461 19s. 2d.

May "postage and inland revenue stamps" be used for these bills?

2. What stamp duty is payable upon the following—

(1) A Bill of Exchange for £1,000 drawn payable "on demand,"

(2) A Promissory Note for £1,000 made payable "on demand?"

3. What is a "Promissory Note"?

4. Give a form of Promissory Note for £500 signed by Owen Meredith, payable three months after date, dated June 1, 1909, to the order of Rhys Brothers.

5. Compare (1) the characteristics and (2) the modern commercial use of Promissory Notes and Bills of Exchange.

6. Is a Promissory Note a negotiable instrument? Is a Bill of Exchange a negotiable instrument? To what extent do the respective liabilities of the various parties to a Bill of Exchange compare with their liabilities if a Promissory Note had been used in the place of a Bill of Exchange?

7. Define a "bank-note." Does a Bank of England note require an endorsement?

8. Upon a Bill of Exchange being dishonoured by the acceptor, and being paid by the last endorser to the holder of the bill, what remedies has such last endorser against the other persons whose names appear on the bill?

9. Define "Accommodation Bills" and "House Bills," and explain the circumstances out of which they usually arise. Are such bills regarded by Bankers with the same degree of favour as other Bills of Exchange?

10. Why are good Bills of Exchange regarded with such favour as temporary investments by the Banks discounting them? Upon what circumstances does the Banker fix the rate of discount at which he will discount bills offered to him by a customer?

NOTE A

(See p. 190.)

The term "Usance" is rapidly becoming obsolete, and tables of "Usances" and "Days of Grace" are practically worthless. Days of Grace will probably shortly disappear in this country, as they have already in many countries.

NOTE B

For the purpose of financing the war, the British Government issued large amounts in the form of *Treasury Bills*. These constitute a favourite investment in banking and financial circles, and, in effect, are promissory notes of the Treasury payable at the end of fixed periods ranging up to twelve months from the date of issue. The bills are for round sums, and do not bear interest rights on the face of them, but are issued at a discount, which provides an interest equivalent for purchasers. Thus, if the official discount rate of issue is 6 % p.a., the cost of a twelve months' Treasury Bill for £1,000 would be £940, and on maturity the Treasury would cash the bill for £1,000.

CHAPTER XIII

SINGLE ENTRY BOOK-KEEPING

It was pointed out to the student in Chapter I that no system of book-keeping can be deemed satisfactory which does not—(a) furnish a continuous record of transactions; (b) show at any time the amounts due to and from the various persons dealt with; (c) show clearly the values placed upon the assets and property employed in the business, together with the additions thereto, and the wastages in value which take place from time to time; and (d) provide the means of grouping together, at any time, the totals of the transactions recorded, so that the trading result for any given period, and the financial position at its close, may be readily ascertained.

The only method of book-keeping which can claim to fulfil these requirements satisfactorily is the Double Entry system. The Single Entry system, which it is the purpose of this present chapter to consider briefly, even at its best quite fails to satisfy the last condition set out above (d); for this reason, if for no other, its rejection as a satisfactory system for a business man to employ is inevitable.

The so-called system of "Single Entry" is difficult to explain to the student, as no fixed rules or scheme can be formulated (where no reliable underlying theory exists), as is the case with "Double Entry" book-keeping. In fact, in almost every case where books are kept by some method other than "Double Entry," they are said to be kept upon the "Single Entry" system!

Single Entry book-keeping, or, to be more strictly accurate, Single Entry book-keeping plus a modicum of Double Entry methods, is still, unfortunately, to be found somewhat extensively employed in many small businesses where but little attention is paid to the books; and faulty though these methods undoubtedly are, they consequently need some brief examination both from the student's and the practising accountant's point of view.

Pure "Single Entry" book-keeping scarcely exists in practice, the system usually met with under that name being a compound of Single and Double Entry. The former system deals only with accounts having a personal aspect, and in pure Single Entry book-keeping the only book kept would be a Ledger containing personal accounts opened for the parties with whom the trader deals; such a Ledger would, as regards form, correspond with the ordinary "Personal" Ledger as used in Double Entry book keeping. Only one entry, *i. e.* the one necessary in the personal account of the party dealt with, would be made upon the occurrence of each transaction.

It will be obvious that, in the majority of businesses using Single Entry methods, this personal Ledger would not furnish an adequate record even for the barest necessities of a small business; an infusion of Double Entry methods, albeit a partial one, is therefore added to the Single Entry system pure and simple. A Cash Book, kept as in Double Entry, is an indispensable necessity, and it is, therefore, included in this composite Single Entry system, although methodical posting from the Cash Book to the Ledger does not take place in every instance.

A Personal Ledger is kept, as in pure theoretical Single Entry. Entries in the Cash Book referring to personal accounts (*i. e.* moneys received from debtors and paid to creditors) are posted from the Cash Book to the accounts in the Personal Ledger just as is the case in Double Entry book-keeping. Cash Book entries relating to accounts other than personal ones (*e. g.* those relating to nominal accounts such as "Machinery," "Salaries," etc.) are not posted to any Ledger accounts. No "nominal" accounts whatever are kept with the exception of the Cash Book, nor, with the exception of the debtors, are any accounts kept to record the assets owned by or used in the business.

"Purchases" Books and "Sales" Books are practical necessities for any business which conducts any part of its operations upon credit, and these books are consequently included in the composite Single Entry system; the purchases and sales effected are posted to the credit or debit of the relative creditor's or debtor's personal accounts in the Ledger; but the Purchases and Sales books are rarely added up, and even in cases where the additions have been made, the total arrived at is not posted anywhere nor made use of in any practical way.

The student will have noted that the composite so-called Single Entry system thus illustrated provides the following information only with regard to the active working of the undertaking—

1. A record of Cash Receipts and Payments (Cash Book).
2. A record of dealings with persons (Ledger).
3. Records of goods bought and sold on credit ("Purchases" Book and "Sales" Book).

These records, however, are not linked together into one system, and the whole method is disjointed and incomplete.

The trading results attained by any business in which the books are kept by Single Entry can only be arrived at by the crude process of comparing the trader's present net worth with his financial position as at some previous given date; the difference between the two "net worths" representing the net gain or the net loss on trading over the selected period, according as the present "net worth" exceeds the previous "net worth" or falls short of it. The trader's "net worth," or "Capital," at any given date is arrived at by preparing a Balance Sheet, or Statement of Affairs. For this purpose the trader's books are employed as far as they go (*i.e.* for cash, debtors and creditors), and the trader's memory, or any memoranda he may possess, must be relied upon for particulars of the remainder of his Assets (*e.g.* land, buildings, carts, horses, etc.). It will be obvious that in cases where financial statements are prepared upon such inchoate information there is a considerable risk of error, and the omission of various material items through forgetfulness is by no means unlikely. If, in either of the two statements used, for the purposes of comparison, there is any inaccuracy, the Profit (or Loss) figure arrived at by means of the comparison of the two capitals shown in them is *pro tanto* incorrect. The unscientific nature and inherent weakness of this method of preparing Profit and Loss statements is thus evident. There exists also in this procedure a further serious defect, which is, however, unavoidable, in that the amount of the Profit or Loss is necessarily arrived at as a single net figure, affording no detailed information whatever as to how the trading result has arisen, and giving no useful details as to the various expenses incurred in carrying on the business; the source of the increase or decrease in the Profit or Loss for the period therefore cannot be ascertained; it

will be needless to point out that, for practical commercial purposes, statements prepared in this manner are immeasurably inferior as compared with the complete and detailed information afforded by a "Trading and Profit and Loss Account" compiled under Double Entry methods.

In Single Entry, owing to the fact that two statements are needed in order to ascertain the trading result (viz. one at the beginning of the period and one at the end), it will be obvious that the certainty of error is involved if the former of the two statements has not been properly prepared; in such cases it becomes necessary for the trader to endeavour to estimate, after a considerable lapse of time, his financial position at the previous given date. It will be needless to further emphasize the fact that trading results arrived at upon such a basis cannot, under any circumstances, be regarded as reliable.

By way of illustration two Statements are set out below, showing the method of arriving at the profits made by John Smith, whose books are kept by "Single Entry," for the year ended December 31, 1909—

JOHN SMITH.

STATEMENT OF AFFAIRS, December 31, 1908

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Sundry Creditors...	950	0	0	Machinery and			
Balance (capital) ...	655	0	0	Plant.....	520	0	0
				Office Furniture....	50	0	0
				Stock on hand.....	310	0	0
				Sundry Debtors....	410	0	0
				Cash at Bank	215	0	0
	£1,605	0	0		£ 1,605	0	0

During the year 1909 J. Smith drew out of the business, on private account, £250, and at the close of the year his position was found to be as follows—

JOHN SMITH.

STATEMENT OF AFFAIRS, December 31, 1909

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Sundry Creditors...	820	0	0	Machinery and			
Balance (capital) ...	1,199	0	0	Plant.....	610	0	0
				Office Furniture....	45	0	0
				Stock on hand.....	440	0	0
				Sundry Debtors....	614	0	0
				Cash at Bank	310	0	0
	£ 2,019	0	0		£ 2,019	0	0

The increase in the "Balance," or Capital, on December 31, 1909, as compared with the previous year, is £544. In order to obtain a true figure of profit the £250 drawn out of the business on private account during the year must be added to this increased "Balance," as this sum, had it been left in the business, would have increased the Assets to this extent. In this way we get at the Profit figure for the year ended December 31, 1909, viz. £544 + £250, *i. e.* £794.

That this is a clumsy and unsatisfactory method of arriving at the trading profits for the period will need no further demonstration. No details are available for comparative purposes, and there is no finality about the results arrived at, owing to the impossibility of bringing the books kept on this system to a "balance." It will be obvious to the student also that, under these circumstances, fraud is more easily committed, owing to the absence of the various salutary checks imposed by the Double Entry system.

If a trader has kept his books upon the Single Entry principle, and has followed the methods described above, so far as they extend, with a reasonable degree of exactitude, it is possible, by various adjustments, to convert his incomplete Single Entry book-keeping records for a given period into a complete Double Entry system.

In carrying out the practice of posting the personal items from the Cash Book in the Single Entry system to the Ledger we have already seen a modicum of Double Entry methods, and the conversion of the remainder of the books from the one system to the other consists of the extension of this rule.

Assuming that the Cash Book, Personal Ledger, Purchases Book and Sales Book have been kept (with, possibly, Returns Books and Bill Books), the process of conversion from Single Entry to Double Entry proceeds upon the following lines—

1. A Nominal Ledger is procured, and the balances appearing in the Statement of Affairs prepared at the commencement of the selected period are entered in it, with the exception of the cash, debtors and creditors, the necessary records of which already appear in the Cash Book and Personal Ledger.

The opening balances are, in this manner, brought into line with Double Entry principles.

2. In the Single Entry book-keeping which has already

been accomplished, such items in the Cash Book as relate to personal accounts have been duly posted in the Personal Ledger. It remains, therefore, to go carefully through the Cash Book and to post to appropriate accounts to be opened in the Nominal Ledger all the "impersonal" Cash Book items. The Cash Book thus becomes an ordinary Double Entry Cash Book, and the items in it are duly posted according to Double Entry methods.

3. In the Single Entry work already carried out, the Purchases Book, Sales Book (and, possibly, the Returns and Bill Books, if the same have been kept) have been entered up and posted to the Personal Ledger accounts kept for the persons with whom the transactions were effected. These books may or may not have been added up; if not already completed, the additions must be made, and the totals thus arrived at must be posted in the Nominal Ledger to appropriate accounts, just as is the case in ordinary Double Entry book-keeping, *e. g.* the Sales Book must be added up and the total of the sales for the period posted to the credit of the "Sales Account," and so on. In this manner the Double Entry for the sales, purchases, etc., is duly achieved, and these books are consequently also brought into harmony with Double Entry principles.

4. Many isolated items will probably be found in the "Single Entry" Personal Ledger for which no compensating posting has been effected, such as "discount" allowed and received, "returns" inwards and outwards, "allowances," "transfers" from one account to another, and so forth. Before any "balance" of the books can be arrived at, it is necessary that the compensating Double Entry for all these items shall be completed. Items of this class must, therefore, be carefully picked out from the various accounts in the Ledger, and collected and analyzed into totals upon sheets of paper according to their nature (*e. g.* all discounts which have been allowed must be picked out from the Ledger upon a sheet headed "Discounts allowed"). The total of each class of item, when ascertained, must be posted to its appropriate account in the Ledger, and upon the correct side of that account, *e. g.* the total of "discounts allowed," arrived at by the process of extraction from the Ledger described above, must be posted to the debit of the "Discount Account." If preferred, these entries can also, of course, be passed through a journal if it is desired to approximate to Double Entry book-keeping in every detail.

5. Any other entries appearing in the "Single Entry" books, and not previously dealt with under one or other of the above rules, must be brought into Double Entry semblance in like manner.

The foregoing measures having been carried through, it will be recognized that their combined effect is to complete the Double Entry in every case, starting with the opening balances and continuing through every transaction to the close of the year under review. A complete Double Entry system having thus been brought into existence where only a Single Entry system existed previously, a Trial Balance can now be prepared, followed by a Balance Sheet and a Profit and Loss Account prepared in the ordinary way.

The "Single Entry" system of book-keeping must not be confused by the student with the "Single Account" method of preparing a Balance Sheet. Examination candidates not infrequently confuse the two terms, which are by no means synonymous.

As the student will learn at a later stage of his career, Balance Sheets are sometimes prepared, in accordance with the requirements of certain statutory forms, in two or more sections, and the name given to this method of accounting is "the Double Account System." In order to distinguish this "Double Account" Balance Sheet from the common form of Balance Sheet prepared in one single statement (like those illustrated on page 122), the term "Single Account System" is sometimes employed; but this designation has no reference whatever to book-keeping by Single Entry methods. As has been previously indicated, a proper Balance Sheet prepared on the "Single Account System" almost invariably pre-supposes book-keeping by Double Entry.

EXERCISES.

13A.

1. What is understood by pure Single Entry book-keeping? Is it ever found in practice?

2. What form of book-keeping in modern use goes by the name of "Single Entry book-keeping"? Is this designation strictly correct?

3. Explain to what extent (if any) the following books are used in modern Single Entry book-keeping—

Cash Book,
Sales Book,
Bills Receivable Book,
Returns Book.

4. What are (1) the disadvantages, (2) the advantages, of Single Entry book-keeping as compared with the Double Entry system?

5. How can a trader who keeps his books by "Single Entry" ascertain his profits for a given period?

6. Compare, from the standpoint of efficiency, the methods of ascertaining profits under Single Entry and Double Entry book-keeping principles.

7. Explain how a trader, having kept his books accurately upon Single Entry principles (as far as that system extends) can convert his Single Entry book-keeping for a given period into Double Entry book-keeping.

8. Discuss the following proposition—"The accuracy of profits ascertained from books kept upon Single Entry principles depends to so large an extent upon the trader's memory that the Single Entry system of arriving at profits can only be regarded as most unreliable."

9. Discuss the following statement—"Book-keeping by Double Entry is worthy of being called a *system*; book-keeping by Single Entry amounts to nothing more than a series of disconnected memoranda."

10. Differentiate between the terms "Single Entry System" and "Single Account System" as used in book-keeping.

✓ 13B

The financial position of John Higgins, who commenced business on January 1, 1909, was as follows--

	£	s.	d.
Cash at the Bank	412	10	0
Stock of goods on hand	1,009	0	0
Plant and machinery	80	0	0
Debtor—O. Jones	124	0	0
Creditor—V. Murray	609	5	0

The following transactions took place during January—1909.

	£	s.	d.
Jan. 2. Drew from the Bank for office cash	10	0	0
„ 2. Sold to O. Jones goods on credit	16	0	0
„ 4. Bought goods from V. Murray (on credit)	139	5	1
„ 5. Received from O. Jones by Cheque	135	0	0
„ 5. Allowed him discount	5	0	0
„ 6. Drew Cheque for sundry office expenses	4	16	7
„ 6. Paid from office cash, salaries	3	10	6
„ 7. Bought goods from V. Murray (on credit)	6	5	4
„ 7. Sold to Wilkinson & Co. goods (on credit)	532	16	9
„ 8. Received from Wilkinson & Co. Cheque	530	0	0
„ 8. Received from Wilkinson & Co. goods returned as unsuitable, invoiced to them at	2	16	9
„ 9. Paid V. Murray by Cheque on account	600	0	0
„ 11. Paid from office cash for stationery and postage stamps	1	10	10

1909.		£ s. d.
Jan. 12.	Sold to Morrison & Co. goods (on credit)	346 19 3
„ 13.	Paid V. Murray by Cheque further on account	100 0 0

Note.—All cheques received are banked on the same day, and all payments are made by Cheque unless otherwise stated.

From the above details write up John Higgins's books by *Single Entry*, and, including the matters set out hereunder, prepare statements showing John Higgins's position as on January 13, 1909, and the profit made to that date.

The stock on hand as on January 13, 1909, was valued at £362 13s. 4d. Plant and machinery on hand was valued on January 13, 1909, at £79. The stock of stationery and postage stamps on hand on January 13, 1909, is to be valued at £1 2s. 6d.

13c.

Richard Hyston, who is a trader in a small way of business, keeps his books by *Single Entry*, but now finds that it is necessary for him to ascertain his profit for the period December 31, 1905—December 31, 1908, in order to obtain reduction of an over-assessment which has been made upon him for Income Tax.

He furnishes the following details as to his position on December 31, 1905—

	£ s. d.
Balance at Bank to his credit (as per pass-book)	94 9 6
Stock of goods on hand estimated at	200 0 0
Shop fixtures and fittings (valued at cost)	45 0 0
Sundry debtors	132 5 9
Sundry creditors	314 16 10

He also furnishes the following details as to his position on December 31, 1908—

	£ s. d.
Overdrawn balance at Bank	10 5 9
Stock of goods on hand	392 1 5
Shop fixtures and fittings valued at	30 0 0
Sundry debtors	342 1 9
Sundry creditors	475 11 9

During the three years he has withdrawn from the business in cash £12 on the last day of each month for his own private expenses.

Prepare—(1) Richard Hyston's Balance Sheet as on December 31, 1908.

(2) A statement showing what profit has been made for the period December 31, 1905—December 31, 1908.

13d.

Upon being questioned the Mr. Hyston mentioned in the preceding exercise (c) admits that his memory is not always reliable, and, upon further investigation, the following facts are brought to light in regard to the statements furnished by him in the preceding question—

- A. In the statement of the position as on December 31, 1905:
1. Stock of goods on hand should have been £210.
 2. Sundry creditors should have been £319 17s. 5d.
 3. The value of a cart and horse (£35) owned by Mr. Hyston has been entirely omitted.
- B. In the statement of the position as on December 31, 1908:
1. Shop fittings and fixtures are worth only £20, not £30 as stated.
 2. Of the sundry debtors (£342 1s. 9d.) debts amounting to £25 1s. 6d. are absolutely bad; in addition to this a reserve of 50 per cent. of their face value must be provided on debts amounting to £22 10s. 4d.; the remainder of the book debts are good.
 3. The value of the cart and horse mentioned above may now be taken at £30, and an additional horse bought and paid for during the three years, and estimated to be worth £25, must be taken into account as on December 31, 1908.
 4. During the six months ended December 31, 1907, R. Hyston's drawings were at the rate of £14 per month instead of £12 per month as previously stated; the figure of £12 per month holds good for all the other months during the three years under review.
 5. On December 31, 1908, the sum of £3 4s. 9d. was in the shop till, but was omitted from the statement furnished, and, in addition, the till contained an I.O.U. for £1 lent to a carman, which sum had not been included in the sundry debtors.

From the foregoing particulars prepare amended statements showing (1) R. Hyston's position as on December 31, 1908, and (2) the net profit made during the three years December 31, 1905—December 31, 1908.

Answers.—13B. Net Profit, £86 6s. 9d.

13C. Net Profit for the three years, £553 7s. 3d.

13D. Net Profit for the three years, £538 5s. 11d.

CHAPTER XIV

CONSIGNMENT ACCOUNTS

CURRENT ACCOUNTS BETWEEN MERCHANTS

A TRADER frequently ships goods to an agent abroad, for sale by the latter on his (the trader's) account; such shipments of goods are, in commercial parlance, termed "**Consignments.**"

In cases where goods are so despatched they do not become the property of the agent to whom they are consigned for sale. There is no question of a sale having been effected as between the trader and his agent, and it is only when the agent has actually sold the goods on the trader's behalf that they cease to be the latter's property. A *pro forma* "invoice" is sometimes sent by the trader to the agent upon the despatch to him of the goods, but this practice is merely formal, its object being to give the agent instructions as to the minimum prices at which he may sell the goods, and the position, from the accounting point of view, is not affected thereby.

In return for his services in disposing of the goods consigned to him, the agent is remunerated by means of a "commission," the amount of which is usually based upon the money product obtained by means of the sale of the goods consigned. Since the agent sells the goods only *as agent* on behalf of the shipper and not upon his own account, it follows that, in connection with any sales made by his agent on credit, the shipper must run all the attendant risks and must bear the loss arising out of insolvency on the part of any purchaser, should it occur, even though he may not even know the name of such purchaser. In order to avoid losses of this description it is frequently arranged between the home trader (the "**Consignor**") and the agent to whom goods are sent (the "**Consignee**") that any losses arising in consequence of the subsequent insolvency of purchasers shall be borne by the consignee instead of by the consignor—the rate of commission payable in these cases being proportionately higher. This arrangement is termed "**Del Credere.**" The "**Del Credere**" commission is frequently shown

separately from, and in addition to, the ordinary "selling" commission.

Consignments despatched by a home trader to an agent for sale on his (the trader's) behalf are, as regards the home trader's books, termed "**Consignments Outwards**"; in the books of the agent they are called "**Consignments Inwards**," and obviously the book-keeping methods of dealing with a consignment require explanation both as regards the books of the "Consignor" and the books of the "Consignee."

In thus consigning goods to an agent abroad, the consignor is temporarily deprived of a portion of his working capital, until such time, in fact, as the proceeds obtained by the sale of the goods are received by him. If the goods consigned are of the consignor's own manufacture, they represent money already expended by him in raw material and wages, and, if purchased by him in a manufactured state, they represent a liability which, in due course, he will have to meet.

To avoid this inconvenience to the consignor a particular kind of bill called a "**Documentary Bill**," is brought into play. The consignor draws upon the consignee a Bill of Exchange, due some months ahead, in anticipation of the proceeds of the consignment, and attaches to it the "**Bill of Lading**" (*i.e.* the document of title issued by the shipping company in exchange for the goods), and sells ("discounts") the Bill of Exchange (with the Bill of Lading attached thereto as security) to a banker having a branch, or agency, in the consignee's city. This Bill of Exchange is usually drawn for a sum considerably less than the real value of the goods, in order that the banker who buys it and the consignee who subsequently pays it may be amply secured.

The banker who has bought a bill of this description sends it to his agent in the consignee's city, and the consignee can thereupon secure the liberation of the whole of the goods on paying the amount of the bill (under a "rebate allowance" for prepayment); or he has the option of taking delivery of the goods piecemeal on paying proportionate instalments of the bill; or, if the consignee be a trader of undoubted financial stability, the local bank holding the bill will frequently deliver to him the Bills of Lading in exchange for his acceptance alone written on the bill.

When the goods have been sold and the consignee in due course remits the proceeds of the consignment to his

principal, he, of course, deducts the amount of any bills he may have accepted against such proceeds.

THE CONSIGNOR'S BOOKS

When goods are despatched "on consignment" they must not be debited to the consignee's Personal Account, for, as has been previously explained, he is not in the position of a debtor to the consignor until the goods consigned have been actually sold by him.

The goods comprised in the consignment should be debited, at cost * price, to a special Ledger account opened for the particular consignment, headed "Consignment to A.B." (the agent's name being inserted), and credited to "Consignments Outwards Account." In businesses where consignments are numerous a "**Consignment Ledger**" is usually kept. To the account opened for each consignment should be debited all charges, *e.g.* freight, insurance, duty, etc., disbursed by the consignor in connection with the shipment of the goods. The net proceeds of the goods, as and when they are sold by the consignee, are credited to the Consignment Account and debited to the Personal Account of the consignee, because he naturally becomes responsible for the resulting proceeds immediately he has sold the goods. By the term "net proceeds" used in this connection is meant the gross selling price of the goods less all the charges disbursed by the consignee, and, of course, less the consignee's commission. A statement termed an "**Account Sales**" is rendered by the consignee to the consignor (sometimes as and when parcels of the goods have been sold, and sometimes at the close of the transaction), in which these details are set forth. A specimen "Account Sales" will be found on p. 218. Any remittances received from the consignee are credited to his Personal Account in the ordinary way, and any drafts drawn upon the consignee in anticipation of the proceeds of the consignment are similarly credited in the same account.

When preparing the annual accounts of the consignor, the balance of the Consignment Outwards Account is transferred to the credit of the Trading Account, and such consignment accounts as may remain open at the date when the books are balanced, which represent unrealized goods "on consignment," should be brought into the accounts as Assets at the *cost price only* of such goods, together with any charges paid thereon to date.

* The goods are taken at cost because, until sold, they merely represent so much stock transferred from one place to another.

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In cases where the goods represented by the consignment are partly sold, each account must be treated upon its merits. The charges paid, if they cover the whole of the consignment, will need careful apportionment as between the goods sold and those which remain unsold.

The method of the treatment of consignments in the consignor's books as described above is illustrated in the subjoined example—

Example.—On January 1, 1909, Wilson Bros. ship upon consignment to Denniston & Co., of Durban, for sale by the latter, upon Wilson Bros.' account, 50 cases of Manchester goods invoiced *pro forma* at £15 10s. per case. A commission of $2\frac{1}{2}$ per cent. is payable on sales, plus an additional charge of 1 per cent. upon sales for *Del Credere* commission.

Wilson Bros. pay in connection with this consignment: Freight £24 10s. and Insurance £5, and draw on Denniston & Co. at three months' sight for £500 against the shipment, selling the bill to the Natal Bank.

Denniston & Co. sell for cash on March 24, 20 cases of goods at £22 6s. per case; on April 8, 21 cases at £21 per case; and on the 9th of April, 9 cases at £25 per case. They accept Wilson Bros.' draft on February 1, 1909, and obtain immediate delivery of the goods from the Bank. They forward to Wilson Bros. an "Account Sales" on April 15, deducting therein the commission due to them at the agreed rates; their disbursements on account of the consignment are: Landing Charges, £4; Storage, Insurance, and Sundries, £14 5s. They remit a Bank Draft for £554 16s. 7d. to close the transaction, the question of interest being waived on each side.

The foregoing transactions are shown as they would appear in the books of Wilson Bros.; at the end of the section dealing with the consignee's accounts the transactions are again shown as they would appear in Denniston & Co.'s books.

ACCOUNT SALES of 50 Cases of Manchester Goods received from WILSON BROS., London, per ss. *Doric Castle*.

Mark.		£ s. d.			£ s. d.		
		£	s.	d.	£	s.	d.
	Proceeds 20 cases goods at £22 6 0	445	0	0			
	" 21 " " £21 0 0	441	0	0			
	" 9 " " £25 0 0	225	0	0			
					1,112	0	0
	<i>Less—</i>						
	Landing charges.....	4	0	0			
	Storage, insurance, and sundries	14	5	0			
	Commission, $2\frac{1}{2}$ per cent. on £1,112	27	16	0			
	<i>Del Credere</i> , 1 per cent. on £1,112	11	2	5			
					57	3	5
					£ 1,054	16	7

Note.—Draft £500 accepted against above consignment, Feb. 1, 1909, due May 4, 1909.

E. & O. E.
Durban, April 15, 1909.
Denniston & Co.

WILSON BROS.' LEDGER

Dr.				Consignment to Denniston & Co., Durban				Cr.			
1909.		£	s.	d.	1909.		£	s.	d.		
Jan. 1	To 50 cases of Manchester goods invoiced at cost, £15 10s. per case...	775	0	0	May 15	By Denniston & Co., net proceeds of consignment	1,054	16	7		
" 1	" Cash, Freight on above.....	24	10	0							
" 1	" Cash, Insurance.....	5	0	0							
June 30	" Profit on consignment transferred to Profit and Loss Account.....	250	6	7							
		£	1,054	16	7		£	1,054	16	7	

Dr.				Denniston & Co., Durban				Cr.			
1909.		£	s.	d.	1909.		£	s.	d.		
May 15	To Net Proceeds of consignment of 50 cases of Manchester goods	1,054	16	7	Jan. 1	By Draft at 3 months' sight drawn against proceeds of consignment...	500	0	0		
					May 15	" Cash (Bank Draft).....	554	16	7		
		£	1,054	16	7		£	1,054	16	7	

CONSIGNEE'S BOOKS

In the books of the consignee the method of recording the history of the consignment is comparatively simple.

Upon receipt of the consignment and the *pro forma* invoice accompanying it, no entry in the books of account is made, inasmuch as the goods do not become at any time the property of the consignee, and he is only concerned therefore in accounting, in due course, for the proceeds, as and when obtained by the sale of the goods. An entry recording the receipt of the consignment and the various details regarding it is made in a Memorandum or Statement book kept by the consignee. Books of this description are usually termed "**Consignments Book Inwards**" or "**Outwards**," according as the entries recorded therein affect the keeper of the book.

Any drafts which may be drawn by the consignor against the proceeds of the consignment and accepted by the consignee are debited by the latter in the Personal Current Account kept by the consignee under the name of the consignor.

All the charges disbursed by the consignee on the consignor's behalf in connection with the consignment are also debited to this account. The proceeds of the consignment, whether sold for cash or upon credit, are credited to the Personal Account of the consignor, the corresponding debit being to "Cash," or to the Personal Account of the purchaser of the goods, according as the sales have been for cash or upon credit. Any payments or remittances of the resulting proceeds made by the consignee to or on account of the consignor are debited to the latter's account.

The above principles are illustrated in the subjoined example, wherein the transactions appearing in Denniston & Co.'s (the consignee's) books relative to the consignment set out previously in this chapter are passed through their books, their account with Wilson Bros. (the consignors) being shown.

DENNISTON & CO.'S LEDGER											
Wilson Bros., London (re consignment ex ss. <i>Doric Castle</i>)						Cr.					
Dr.											
1909.		£	s.	d.	1909.			£	s.	d.	
Feb. 1	To Draft in favour of Natal Bank accepted	500	0	0	Mar. 24	By Proceeds of 20 cases of goods sold for cash at £22		446	0	0	
" 4	" " L a n d i n g charges	4	0	0	Apl. 8	" Proceeds of 21 cases at £21		441	0	0	
Mar. 20	" " Storage, insurance, and sundries	14	5	0	" 9	" Proceeds of 9 cases at £25		225	0	0	
Apl. 15	" " Commission.....	27	16	0							
" 15	" " Del Credere commission ...	11	2	5							
" 15	" " Cash, Bank Draft drawn on Natal Bank, Ltd., London	554	16	7							
		£	1,112	0	0			£	1,112	0	0

The following terms are frequently used in preparing Account Sales in connection with quantities or parcels of goods, viz. "Gross Weight," "Tare" and "Net Weight," and it may be useful to explain them here briefly—

The "Gross Weight" or "Gross" is the weight of goods or commodities as packed, *i. e.* including the weight of the cask, crate, box or material in which they are contained.

"Tare" signifies the weight of the crate, cask, box or material containing the goods if weighed separately from the goods themselves.

The "Net Weight" or "Net" is obtained by deducting the "Tare" from the "Gross Weight," and represents the actual weight of the goods themselves.

E. g. if in connection with a consignment of coffee the weights are thus stated, viz. Gross, 100 cwt.; Tare, 3 cwt.; Net, 97 cwt., the interpretation is that 97 cwt. of coffee were contained in a package weighing 3 cwt., the total weight of the goods and packing thus being 100 cwt.

In dealing with goods sold on consignment the student should always be careful to work out any requisite figure of proceeds on the basis of the "Net" weight, as obviously the purchaser cannot be expected to pay for comparatively inexpensive packing materials at the prices of valuable goods. The value of packages is usually ignored in examination questions.

CURRENT ACCOUNTS BETWEEN MERCHANTS

In cases where considerable balances may, from time to time, be owing as between merchants and their foreign agents, it is customary for interest to be allowed by the one party to the other upon the current balance of account between them. In this manner the party who is the creditor in the transaction obtains some compensation for the temporary loss of the use of the moneys allowed to remain by him in his debtor's hands, and *vice versa*.

Many methods of charging this interest exist, but, owing to considerations of space, it is deemed to be necessary only to illustrate here one of the most usual systems.

It will be remembered that the interest for any given time upon any sum of money may be calculated according to the following formula—

$$\text{Required Interest} = \frac{\text{Principal} \times \text{number of days} \times \text{rate}}{100 \times 365}$$

In working out the total interest upon a number of consecutive daily (or other periodical) balances it is sufficient to multiply each balance (Principal) by the

period of time for which it exists unaltered, and to add together the products so obtained; the multiplication of this total of products by the rate per cent. allowed, and its subsequent division by 36,500, will produce one figure of interest in sterling, and this resulting figure represents the total interest upon the whole of the successive balances.

This method of calculating interest upon the current balance of an "Account Current" is customary among bankers, in whose Ledgers extra columns are provided for (1) the insertion of the daily or other periodical balances, (2) the number of days for which such balance has remained unchanged, and (3) the product obtained by multiplying together the number of pounds in the balance and the number of days. Column No. 3 (Product column) is added at the end of any given period, and by multiplying this total by the rate per cent. per annum allowed, and by its division by 36,500, a net figure of interest is obtained which represents the necessary allowance to the customer.

This system may also be adopted as between merchants, but it obviously necessitates the extension of each daily balance on a separate statement. It is customary, therefore, in commercial practice, to calculate interest in a way which may, at first sight, appear more cumbersome, but which produces the same result without involving the tedious extraction of daily balances. Instead of each daily balance being multiplied by the number of days for which it remains unchanged, each item on either side of the account is multiplied by the number of days elapsing between the date of its happening and the starting date of the account (or the date up to which interest was last calculated upon the account being ruled off and balanced). The total of the products thus obtained on the Debit side of the account is offset against the total of the products obtained on the Credit side of the account, and the difference between the two total products is subjected to the same process of multiplication by the rate per cent. per annum and the division by 36,500 as in the "daily balance" method explained above. The net figure of interest so obtained in sterling, appearing on the Debit or Credit side according as the case may be, is the net amount to be allowed or charged to the customer by the merchant in whose books the account in question is running.

Dr. WILSON, BROWN & CO., London, in account with MERRILIES BROS., Calcutta. Cr.															
Date.	Details.	Folio.	£	s.	d.	Days.	Product	Date.	Details.	Folio.	£	s.	d.	Days.	Product.
1909.								1909.							
April 30	To Balance brought down	✓						May 25	By Cash	24	2,000	0	0	25	50,000
May 8	" Goods	36	3,000	0	0			" Returns	" 26	361	100	0	0	26	2,600
May 30	" Interest	298	400	10	0	3	1,200	" Goods	" 27	79	240	0	0	27	18,900
			14	8	10		105,400	June 24	" Cash	82	350	0	0	55	13,750
	(£105,400 × 5)							" Balance,	"						
	= £14 8s. 10d.							" £349 15s. 0d.						61	21,850
								" Balance carried down	✓		301	3	10		
1909.															
June 30	To Balance brought down	✓									£	3,414	18	10	106,600
			3,414	18	10		106,600								
			304	8	10										

A specimen form of an account current between two merchants, whereon interest is running at 5 per cent. per annum, appears on p. 223. It must be noted that in such accounts balances are brought down under the date of the closing day of each period (*e.g.* April 30 and June 30), and not, according to the more customary usage, under the date of the opening day of each succeeding period (*e.g.* May 1 and July 1). This precaution is necessary in order that a day's interest may not be omitted.

EXERCISES

14A.

1. Explain briefly the nature, objects and methods customary in connection with "consignments" of goods from one merchant to another.
2. Differentiate between "Sales" and "Consignments," explaining the principal features of each.
3. What is a "*Del Credere*" commission? What benefit accrues to the consignor through its payment?
4. What is an "Account Sales"?
5. What is the legal position of a consignee as regards goods shipped to him "on consignment"? Are such goods his property at any time during the transaction?
6. Explain what is meant by a consignor "drawing a bill upon his consignee against the goods consigned." What happens to such a bill, and wherein does the consignor derive benefit from the procedure?
7. Explain the entries made by a consignee in his books—
 - (a) On the receipt of the consignment,
 - (b) On the sale of a portion of it,
 - (c) On remitting to the consignor the net proceeds of the sale of the goods.
8. How should consignment accounts which are still open at the date of balancing be dealt with in the books of a consignor?
9. Explain the working of a current account between merchants in which interest is to be worked on the account from day to day.
10. Explain the terms "Gross Weight," "Tare," and "Net Weight" as used in an account sales.

14B.

Arabi Kaid & Co. of Smyrna forward to H. Hope & Co. of London a consignment of 100 half bales of coffee marked "A. K. & Co." for sale on commission (including *Del Credere*) of $1\frac{1}{2}$ per cent. on the proceeds.

The weights of the coffee were—

Gross	.	.	.	.	154 cwt. 3 qrs. 14 lb.
Tare	.	.	.	.	8 cwt. 0 qrs. 14 lb.

The coffee was sold at 61s. per cwt., less 1 per cent. discount for cash. Hope & Co.'s charges were as follows—

	£	s.	d.
Brokerage, $\frac{1}{2}$ per cent.	2	4	10
Landing Charges	5	9	10
Fire Insurance	2	10	0
Rent	10	9	1
Marine Insurance	4	2	8

Commission and *Del Credere*, $1\frac{1}{2}$ per cent. on Sales.

From the above particulars prepare the Account Sales to be rendered under date June 1, 1909, by Hope & Co. to Arabi Kaid & Co.

14c.

Pollock Bros. of Swansea purchased and consigned on June 1, 1909, 2,000 tons of Welsh Steam Coal to Gremaud Frères of Marseilles, per ss. *Louise*, the coal being invoiced at 10s. per ton, this being the cost of the coal to Pollock Bros.

Against this consignment Pollock Bros. drew a draft at thirty days date upon Gremaud Frères for £500, the draft being dated June 2, 1909. This draft was sold to the Comptoir National d'Escompte de Paris in London for £498.

Pollock Bros. paid the following charges on the consignment—

	£	s.	d.
Freight, 2,000 tons at 1s. per ton	100	0	0
Insurance, £1,100 at 2s. per cent.	1	2	0
Loading and dock charges at Swansea	10	4	9
Railway charges to Swansea, 6d. per ton	50	0	0

Gremaud Frères received the consignment of coal on June 8 and effected the following sales for cash—

	frs.
1,000 tons at frs. 20 per ton	20,000
1,000 tons at frs. 21 per ton	21,000
	<hr/>
	frs. 41,000

Gremaud Frères rendered on June 10 an Account Sales for the above proceeds, including the following charges—

	frs.
Dock charges at Marseilles	625
Sundry Disbursements	555
Gremaud Frères' commission on sales, 2 per cent.	820
	<hr/>
	frs. 2,000

Gremaud Frères accepted Pollock Bros.' draft for the equivalent in francs of £500, *i. e.* frs. 12,500, and remitted a draft on London for the equivalent of the net proceeds of the consignment after deducting the £500 draft, as under—

	frs.
Gross proceeds of consignment	41,000
Deduct charges	2,000
	<hr/>
	39,000
Deduct £500 acceptance	12,500
	<hr/>

Draft on London obtained for £1,060, equivalent
of frs. 26,500

Note.—Twenty-five francs have been taken as the equivalent of £1.

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Show the transactions relating to the foregoing consignment—

1. In the books of Pollock Bros. (in pounds sterling).
2. In the books of Gremaud Frères (in francs).

14D.

Show the following transactions in the form of an Account Current bearing interest at 5 per cent. per annum, to be rendered by Murphy & Co. of London, to Gellibrand Bros. of Cape Town, made up to June 30, 1909.

		£	s.	d.
1908.				
Dec. 31.	Debit Balance owing to Murphy & Co. by Gellibrand Bros.	1,000	0	0
1909.				
Jan. 15.	Murphy & Co. paid R. Jones for account of Gellibrand Bros.	200	0	0
Mar. 24.	Gellibrand Bros. remitted Murphy & Co. by Bank Draft	1,000	0	0
April 15.	Murphy & Co. sold Gellibrand Bros. goods invoiced at	192	0	0
May 3.	Murphy & Co. paid on account of Gellibrand Bros.—			
	To W. Herries	10	0	0
	„ R. Herries	10	0	0
	„ Mrs. H. Herries	50	0	0
June 9.	Murphy & Co. paid on account of Gellibrand Bros.—			
	To the Northern Weaving Co., Ltd.	329	0	0
	„ Union Castle Mail SS. Co.	38	0	0
June 11.	Murphy & Co. received a parcel of bullion remitted to them by Gellibrand Bros. for sale on the latter's account	1,029	0	0
	And paid assaying charges thereon.	4	0	0

Answers.—

14B. Net proceeds after deducting all charges and commission, £411 11s. 6d.

14C. Pollock & Co.'s books :—Net Profit on consignment, £398 13s. 3d. Totals of Consignment Account, £1,560 0s. 0d. Gremaud Frères :—Totals of Consignment Account, 41,000 frs.

14D. Credit Balance of Account at June 30, 1909, £179 2s. 9d. Interest, debit, £16 17s. 3d.

CHAPTER XV

PARTNERSHIP ACCOUNTS

THE student may probably have noted that the accounts previously illustrated in this treatise relate, for the most part, to cases where the undertaking is the sole property of one person trading on his own account.

In small business undertakings the "sole trader" is generally the only person who has any stake in the concern; on the other hand, large private mercantile businesses more frequently belong to a number of joint proprietors, trading in common with a view to mutual profit, and jointly sharing in the direction of the undertaking. This trading relation is known as a **Partnership**, and the joint owners are known as **Partners**.

The Partnership Act, 1890, defines partnership as being "the relation which subsists between persons carrying on a business in common with a view of profit."

Under the provisions of the Companies (Consolidation) Act, 1908, section 1, no partnership may be formed consisting of more than *twenty* persons, unless it is registered as a company. In the case of banks the partners may not exceed *ten* in number, unless registered under the Companies Acts.

The accounts of a business which is the property of a partnership naturally differ, as regards the capital accounts and the division of profits, from the accounts of a sole trader, although, as regards the detailed transactions recording the trading side of the business (*i. e.* the purchases, sales, expenses, etc.), they are identical with those of a sole trader, as already described in previous chapters.

The main characteristics, so far as they concern us here, of an ordinary partnership are as follows—

1. All the partners in a firm are individually liable for the whole of the partnership debts.

Note.—Partnerships in which the liability of one or more of the members may be limited to a certain specified sum can now be formed

under the "Limited Partnership Act, 1908," but are not very frequently met with.

2. All partners contribute, as a rule, "Capital" to the common fund, although their contributions may, and frequently do, differ in amount.
3. All partners share in profits and share the losses; the proportions in which they divide may differ or vary as between different partners, and may or may not be calculated according to the proportionate amount of the capital contributed by each partner.
4. All partners are entitled, in the absence of any agreement to the contrary, to share in the direction of the undertaking, but are not entitled, in the absence of a special agreement, to any salary for so acting.

These matters, and others which do not concern us for present purposes, are detailed in an agreement called a **Deed (or Articles) of Partnership**, which is signed by all the Partners constituting the firm, and forms the basis of their rights, and duties *inter se*. Articles of Partnership are advisable but not compulsory.

Every properly-drawn Deed of Partnership contains clauses dealing with the undermentioned matters affecting the partnership accounts—

- (a) The Capital arrangements of the partnership, the proportionate shares in which it is to be contributed, and any agreement there may be as to whether such contributions are to be "fixed" in amount.
- (b) The agreed arrangements as to the drawings of the Partners.
- (c) The agreed division of profits and losses, both of a "Capital" nature and otherwise.
- (d) The terms agreed upon as to the allowance of Interest upon Capital (if any) and the charging of Interest upon Drawings.
- (e) Partners' salaries (if any).
- (f) The agreement arrived at as to Goodwill (if any), especially in case of retirement or death.
- (g) Provision for the preparation of proper annual accounts.

In cases of dispute, where no mutual agreement can be arrived at by the Partners upon any points which are inadequately covered by the Deed of Partnership, the

provisions of the **Partnership Act, 1890**, and the legal decisions arising thereunder, will be applied to settle the matters at issue. In cases of dispute the appointment of an arbitrator, if agreed to by all parties, is usually the best course to pursue.

In cases where there is no Partnership Deed, and where no mutual agreement can be arrived at between the partners, the Partnership Act, 1890 (sec. 24), provides that—

1. Partners are entitled to share equally in the capital and profits and must contribute equally to the losses, whether of Capital or otherwise.
2. Partners are entitled to receive out of the undertaking interest at the rate of 5 per cent. per annum on any advances they may make *apart* from Capital.
3. Partners are not entitled to be credited with interest on the balances of their Capital Accounts prior to the ascertainment of profits.
4. Partners are not entitled to any salary for acting in the partnership business.

The Capital of a partnership, in almost every instance, is contributed by more than one individual, and it is consequently necessary to recognize this fact in the partnership books. The combined Capitals of all the partners in a partnership correspond to the single Capital Account of a sole trader in that they both express and represent the excess of the Assets of the business over its Liabilities; it must, however, be pointed out that the liability for business debts either in the case of a sole trader, or in that of an individual partner, extends beyond the amount of whatever Capital he may have embarked in the business, and that the whole of his private property (if any) is subject to the satisfaction of his business obligations.

The amount of a sole trader's Capital is, as has been already explained, credited in his books to his "Capital Account." In the case of a partnership the Capital of each individual partner is credited in an analogous manner to such partner's separate Capital Account, and he is, for book-keeping purposes, regarded as a creditor of the firm for the amount of such capital. At the end of each trading period the net profit (or the net loss) as shown by the firm's Profit and Loss Account is divided among the partners in the proportions prescribed by the partnership agree-

ment (or in default of any such agreement in equal shares among them), and the share of each partner under such division is transferred to his "Current" or "Drawings" Account, either to the credit of the account in the case of a profit, or to its debit in the case of a loss.

It is customary for partners to be authorized, under their deed of partnership, to withdraw agreed yearly sums from the business by instalments, at such periodical intervals as may be agreed upon, in anticipation of the shares of profits to which they will be entitled when the firm's annual accounts are prepared in due course. These periodical withdrawals are termed **Drawings**.

In earlier days it was customary to debit partners' drawings, as they occurred, to their Capital Accounts: the modern, and more convenient, method is to open two separate accounts for each partner, viz. (a) a **Capital Account**, and (b) a **Current, or Drawings Account**. The purpose of the former is to record the amount of capital contributed by the partner, and this will remain unaltered unless some change takes place in the agreed capital of the partner. The Current Account is used to record particulars of all other transactions between the firm and the partner, such, *e.g.* as (1) the amounts withdrawn by the partner and the interest chargeable thereon, (2) interest on capital, (3) share of profit or loss, (4) partnership salary (if any), (5) goods withdrawn by the partner (if any), and the like.

These accounts are kept precisely as though the partners were outside persons dealing with the firm. Any balances remaining to the credit of partners' Current Accounts are carried forward to the next financial period, and partnership deeds usually provide that such credit balances shall carry interest at an agreed rate until withdrawn. If a debit balance is shown on a partner's Current Account, it must be treated as a debt due to the firm, and be set out *separately* in the B./S. as an asset.

The two main reasons for the modern practice of keeping separate Capital and Current Accounts are:—first, that the conflicting opinions which have arisen out of the Partnership Act, 1890, have caused "fixed" capital contributions to become increasingly popular under deeds of partnership, and, secondly, the obvious advantage of keeping the Capital Accounts free from cumbersome detail.

When answering examination questions, the candidate will be well advised to follow the modern practice.

It is a common occurrence to find in a partnership agreement some such provision as the following:—

“Partners shall be credited at the end of each year with interest at the rate of 5 per cent. per annum upon the amount of their capitals at the beginning of each year,” or, “upon the current balances of their Capital Accounts.”

This custom of allowing interest to partners upon their capital is a general one, although the “Interest” (so-called) is not in the ordinary sense interest which has been earned by the business as such; it is merely an appropriation to the credit of each partner of a preliminary share of the firm’s profits based upon the amount of his Capital Account, and can only be termed “Interest” as a matter of convenience.

In cases where the Capital employed in a firm is contributed in unequal shares by the various partners, it is an obvious matter of equity that the claims of those partners who contribute the larger share of the Capital should be recompensed by the allowance of interest at a fixed rate upon the credit balance of all the partners’ Capital Accounts. In this manner any inequality of the contributions of capital by the partners is fairly adjusted as between themselves.

Interest so credited to partners upon their Capital must perforce be debited, as if it were an ordinary payment of interest, in the Profit and Loss Account in the customary process of its compilation. The effect of this debit is to diminish, to the extent of such interest, the balance shown upon this account as representing “Net Profits,” and (in cases where interest on Capital is so charged) the “Net Profits” shown do not form the whole of the actual trading profit earned by the business, but only the residuum which is left after allowing the partners, out of profits, an assumed rate of interest on the money they have embarked in the concern.

As has been pointed out above, if the partners’ capitals are, as frequently is the case, disproportionate to the shares of profits taken by them, the charging and allowing of interest upon the Capital Accounts of the partners to a certain extent compensates for these inequalities, *e.g.* it is possible to conceive of a partnership of two persons where the capital of one partner was £10,000 and that of the other £1,000, and where both partners contributed

an equal amount of work and ability and were entitled to an equal share of the profits. In such a case it will be obvious that, if, before ascertaining profits, the larger Capital Account is to receive interest at, say, 5 per cent. per annum on £10,000, and the smaller that upon £1,000, the excess of capital contributed by the one partner receives due compensation.

In cases where one of the partners in a firm devotes a larger share of his time to the affairs of the partnership, or possesses greater skill or experience than his co-partner, it is not unusual for such a partner to be paid a salary in recognition of such services, such salary to be charged against the profits of the firm prior to division. These salaries are called **Partnership Salaries**.

The practice of allowing interest upon capital at fixed rates of interest also has the effect of demonstrating to the partners the extent to which they have derived additional profit by placing their money in a trading concern, as compared with the return which they would have obtained had they merely invested their capital in ordinary securities, and drawn the interest or dividends accruing from their investments.

The "Net Profits" of a firm represent (if interest upon capital has been charged at a reasonable rate) the additional income obtained by the partners by engaging in trade over and above the return which they would have received as investors. The liability of an investor may be limited to the amount he has staked in any one venture or company, while the liability attaching to a partner in a private business is unlimited; by charging interest upon capital in their Profit and Loss Account the partners in a firm are therefore enabled to ascertain whether the additional income thus accruing to them compensates them adequately for the increased risks and liabilities they have assumed.

Interest is frequently *charged* upon the sums withdrawn by partners, just as it is *allowed* upon the Capital standing to their credit. This practice is the more equitable method of accounting in cases where there are no stated dates or limits fixed for partners' drawings, or where such drawings are unequal in amount. In cases where interest is charged on drawings, inner columns are provided in the partners' Current Accounts, as shown in the specimen account on p. 234, in order to record the interest chargeable. Theoretically, when each entry of interest is

made, a journal entry should be passed debiting the partners' Current Accounts and crediting Interest Account. In practice, however, a journal entry is made at the close of the year of the totals of the interest charged to the different partners, the aggregate amount of the entries being credited to Interest Account.* Thus:—

		£	s.	d.	£	s.	d.
Sundries :—	Dr.						
J. Jones, Current Account.....		25	10	6			
B. Brown, Do.		17	4	8			
R. Robinson, Do.		9	10	4			
To Interest Account.						52	5
For interest on partners' drawings for the year.							6

It has already been explained that the modern practice is to collect all partners' transactions with the firm in their Current Accounts. The following worked example illustrates the procedure.

Example.—Robert and John Smith are partners. Their respective capitals, on January 1, were:—Robert Smith £12,000; John Smith £10,000. The partners were entitled to 5 per cent. interest on capital, and were chargeable with 5 per cent. interest on drawings. John Smith was entitled to be credited at the close of the year with a partnership salary of £300 per annum. Profits were divisible as to two-thirds to Robert Smith and one-third to John Smith. The profits for the year ending December 31, after providing for interest and the partnership salary, amounted to £4,380. During the year, John Smith drew the following sums, viz.: May 30, £200; Aug. 27, £100; Oct. 19, £50; Oct. 26, £300; Dec. 31, £100; and he also withdrew goods from the firm to the value of £98. Prepare John Smith's Capital and Current Accounts as on Dec. 31.

* In the somewhat rare cases where the partners of a firm have contributed the Capital equally, and take their periodical drawings in exactly the same proportion as they share the profits, there is obviously no urgent need to make any provision for interest either upon Capital or Drawings, except for the purpose of showing how the income derived from trading compares with the interest product which would arise from investing the same amount of capital in ordinary securities.

If, in the above example, John Smith had been entitled to draw his partnership salary of £300 per annum *in cash* at stated intervals, no entry would appear in his Current Account. The periodical payments would be credited in the Cash Book as they occurred, and from thence would be posted direct to the debit of a "Partnership Salary Account," the total of which would be transferred to the debit of Profit and Loss Account at the close of the year.

Examination experience suggests the advisability of drawing particular attention to the following points in this place:—

(1) When preparing the Profit and Loss Account of a partnership, it is always advisable to present the account in two sections. The first section should show clearly the total amount of the divisible net profit earned by the firm. This should be carried down to the second section and there divided between the partners. If the account is prepared in this way, the net profit for the year is clearly shown *as a separate figure*. Many candidates close a partnership Profit and Loss Account as follows:—

PROFIT AND LOSS ACCOUNT

	£	s.	d.		£	s.	d.
To Interest on Capital	600	0	0	By Trading Profit	4,200	10	6
" Bad Debts	160	0	0				
" Depreciation	120	0	0				
" Partnership Salaries, etc., etc.	850	0	0				
" John Smith	1,221	4	8				
" Robert Brown	960	2	1				
" William Robinson	789	4	2				
	£ 4,200	10	6		£ 4,200	10	6

This method is not, of course, incorrect, but it is not in accordance with the usual practice. It makes it necessary to add together the individual shares of the partners in order to ascertain the total net profit for the year, and so wastes the time of those seeking this information.

Some partnership firms make it a practice to exclude from the first section of the Profit and Loss Account all partnership items such as interest on capital and drawings, partnership salaries, etc., and set them out in a second

section, the balance of which is brought down to a third section and there divided. This method has the advantage of showing the actual trading profit earned, apart from partnership adjustments, and also facilitates the preparation of income tax returns in which partners' salaries and interest are "added back" to arrive at the liability for assessment.

(2) Strange as it may seem, many candidates make the serious mistake of *debiting partners' drawings to the Profit and Loss Account*. It is necessary, therefore, to warn students against this error of principle. The partners in a firm cannot know the amount of profit to which they will become entitled at the close of the year, and, usually, it is inconvenient for them to wait until the accounts for the year have been made up. Arrangements are therefore made by which each partner periodically withdraws specified sums on account of profits which it is assumed are being earned. Considered in this light, it is seen that partners' drawings are merely *payments on account of profits*, and in no sense a charge against profits. Indeed, if no profits are made, the amounts withdrawn by the partners during the year are debts due to the firm. In all cases they must be treated as debits against the Current Accounts of the individual partners, not charges against the firm's profits.

The subject of "Goodwill" is dealt with later on in this treatise, but it is so intimately associated with many questions of partnership accounting that it requires at least some brief consideration in this place, particularly in the light of the relations which arise as between partners in regard to it.

Goodwill is, as has been previously stated, an intangible asset, but it is none the less, in many cases, a very real one. It may be defined as the "benefit arising from connection and reputation," † and although it is not an Asset which a trader can take into the market and sell immediately, or upon which he can readily raise a loan from his bankers, the question of Goodwill, and the price to be paid for any share in it, frequently assumes important proportions in negotiations between the existing members of a firm, or the existing owners of an established "Goodwill," and proposed incoming partners. A prospective partner

* "Goodwill is nothing more than the *probability* that the old customers will resort to the old place."—LORD ELDON.

upon his becoming an actual partner acquires, by virtue of such partnership, the right to a proportionate share of the existing Goodwill, and to the profits derived from its use and possession, and it is only equitable that the former owners of the Asset shall claim adequate compensation for surrendering a portion of these benefits. Upon the dissolution or liquidation of a partnership the sale of the Goodwill produces, in many cases, a sum of money which is available for division among the partners, and, in such cases, similar questions arise as to its equitable distribution.

A partner upon joining an existing firm usually pays to the former members a certain sum, known as a "**Premium**," for his admission; this "premium" is, as far as the new-comer is concerned, an admission fee entitling him to a share of the Goodwill of the business and of the profits arising out of its possession. The new partner frequently pays this sum direct to the former partners as a matter entirely outside the business, and, in these cases, there is no occasion to record the transaction in the books of the new firm.

Example.—If A. B. (an incoming partner) pays to C. D., the former sole owner of the business, £1,000 by way of a premium for admission as a partner in C. D.'s business, and in addition brings in £500 in cash into the business as his capital, A. B.'s Capital Account only requires to be credited with the £500 placed in the coffers of the new firm, the £1,000 paid to C. D. being a private matter between A. B. and C. D. with which the records of the firm have no concern.

Occasionally payments made by an incoming partner to the existing members of a firm in respect of "premium" are passed through the firm's banking account for the sake of convenience, but they are not credited to the incoming partner as is the case with his capital contribution. It is the account of each recipient of the money, *i.e.* of each existing partner, which is credited with his share of the premium received, and the "premium" thus credited to him may be allowed to stand to his credit as additional capital or be withdrawn by him as may be arranged between the parties to the agreement. The main point to be remembered in this connection is that the incoming partner has no further interest in or control over the premium he pays for admission after having parted with it.

It is necessary for the student, in dealing with partnership accounts and the admission of new partners into an existing firm, always to bear in mind the essential

difference which exists between sums paid by an incoming partner by way of "premium" for admission, and any contribution which may be made by him to the firm's existing capital. With the former amount the new-comer has little or no concern after having parted with it, since what he pays under this head becomes, as has been indicated above, the absolute private property of the persons to whom it is paid. With the latter amount, however, he is permanently concerned, because it represents his share of the new firm's capital. The division, as between the existing partners in a firm, of sums paid to them by an incoming partner in respect of his share of the Goodwill, takes place ordinarily upon the same basis as that upon which they share profits, and not upon the basis of the amount of their respective capitals. This procedure arises out of the fact that the payment for a share of the Goodwill is a compensation paid to existing partners for a share of future profits surrendered by them to the incomer, and requires to be divided according to the basis upon which profits are dealt with.

The principle explained above is exemplified in the following case—

Example.—J. Roberts and O. Owen, trading as Roberts & Company, and possessing respectively capital amounting to £2,000 and £1,000, and sharing profits as to two-thirds to J. Roberts and as to one-third to O. Owen, decide to admit W. Brown as on December 31, 1908, as a partner. W. Brown is to bring in £1,000 as his capital, and is to pay £1,500 to the pre-existing partners for his share of the Goodwill (*i. e.* by way of premium on admission), and the shares of profits as between the partners are then to be as follows: J. Roberts $\frac{2}{3}$, G. Owen and W. Brown $\frac{1}{3}$ each.

Assuming that these transactions have been duly carried out, and that the £2,500 has been paid by W. Brown into the firm's banking account, from which the old partners have withdrawn their proportionate shares of the payment for Goodwill, show these transactions in the new firm's books.

No Goodwill Account exists in the books of the old firm, nor, in a question of the above character, need any Goodwill Account be opened. The occurrence of the words "for his share of the Goodwill" must not be allowed to mislead the student into crediting Goodwill Account with the £1,500 paid by way of premium for admission, in view of the fact that this sum goes absolutely to the old partners.

The £1,000 paid in by W. Brown as his capital is of quite a different nature, and must be credited to his Capital Account. The £1,500 paid in by him as premium

for admission, if recorded in the books at all, would be credited as to two-thirds of it (£1,000) to J. Roberts, and as to the remaining one-third of it (£500) to O. Owen, the entries being passed through their respective Capital Accounts for the sake of convenience. The withdrawal of the £1,500, when effected, would be debited to the former partners' Capital Accounts in the ordinary way.

Dr.		J. ROBERTS, Capital Account				Cr.			
1908.		£	s.	d.	1908.	£	s.	d.	
Dec. 31	To Cash.....	1,000	0	0	Dec. 31	By Balance brought forward.....	2,000	0	0
" 31	" Balance carried down.....	2,000	0	0	" 31	" Cash, two-thirds of W. Brown's premium for admission.....	1,000	0	0
		£ 3,000	0	0			£ 3,000	0	0
					1908.				
					Dec. 31	By Balance brought down.....	2,000	0	0

Dr.		O. OWEN, Capital Account						Cr.	
1908.		£	s.	d.	1908.		£	s.	d.
Dec. 31	To Cash.....	500	0	0	Dec. 31	By Balance brought forward.....	1,000	0	0
" 31	" Balance carried down.....	1,000	0	0	" 31	" Cash, one-third of W. Brown's premium for admission.....	500	0	0
		£ 1,500	0	0	1908.		£ 1,500	0	0
					Dec. 31		By Balance brought down.....	1,000	0

Dr.		W. BROWN, Capital Account				Cr.		
				1908.		£	s.	d.
				Dec. 31	By Cash (capital paid in on this date)	1,000	0	0
						1,000	0	0

Dr.		BANK		Cr.		
1908.		£	s. d.	1908.	£ s.	
Dec 31	To W. Brown, <i>Cap.</i> A/c Capital brought in.....	£ 1,000		Dec 31	By J. Roberts, <i>Capital Ac-</i> <i>count</i> , proportion of W. Brown's premium for admission withdrawn.	1,000 0
" 31	" J. Roberts, <i>Cap.</i> A/c, two-thirds of W. Brown's premium for ad- mission.....	1,000		" 31	" O. Owen, <i>Capital Ac-</i> <i>count</i> , proportion of W. Brown's premium for admission withdrawn.	500 0
" 31	" O. Owen, <i>Cap.</i> A/c, one-third of W. Brown's pre- mium for admis- sion.....	500				
		2,500	0 0			

Upon the admission of a new partner, in cases where it is desired to give the former partners some compensation for such admission without obliging the incomer to pay them any cash premium, it is frequently arranged that a "Goodwill Account," *i. e.* an "Asset" Account, shall be opened in the books of the new firm for an agreed sum, the corresponding credit for which shall be placed to the old partners' respective Capital Accounts. In this way the Capital Accounts of the old partners are augmented by a certain sum, as compared with any cash capital which may be introduced by the incoming partner. Furthermore, since the new partner obtains, in exchange for any cash capital he may bring in, a proportionate part only of the Assets (including the intangible asset of Goodwill now brought into the books at the agreed figure), this plan obviously operates to his detriment and for the benefit of the previous partners.

Example.—A. B., trading as A. B. & Co. with a capital of £1,000, represented by cash £500 and stock £500, and having no liabilities, decides to admit C. D. as a partner as on January 1, 1909; the latter is to bring in £1,000 as cash capital, and a "Goodwill Account" is to be raised on the books for £1,500, which is to be credited to A. B.

Prior to C. D.'s admission a Journal entry is passed through the books, debiting Goodwill Account with £1,500 and crediting a like sum to A. B.'s Capital Account; the latter account is thereby raised to £2,500. C. D.'s £1,000, when paid into the bank, is credited to his Capital Account in the ordinary way.

The effect of these transactions, and the position of A. B., before and after their occurrence, will be gathered from the subjoined Balance Sheets.

A. B. & CO.'S BALANCE SHEET, as on December 31, 1908 (prior to the admission of C. D.)

LIABILITIES.		ASSETS.	
£	s. d.	£	s. d.
A. B., Capital Account	1,000 0 0	Cash	500 0 0
		Stock	500 0 0
			1,000 0 0

A. B. & CO.'S BALANCE SHEET, as on January 1, 1909 (after the admission of C. D.)

LIABILITIES.		ASSETS.	
£	s. d.	£	s. d.
A. B., Capital Account.....	2,500 0 0	Cash	1,500 0 0
C. D., do.	1,000 0 0	Stock	500 0 0
		Goodwill.....	1,500 0 0
			3,500 0 0

It will be noted that whereas A. B. previously had a capital of £1,000, represented entirely by tangible assets, he possesses, after the admission of C. D., a capital of £2,500, represented by his share in the Assets of the new firm. The latter amount to £3,500, including the intangible asset of "Goodwill" amounting to £1,500, and this im-

provement in A.B.'s position has been effected without any cash contribution whatever on his part.

For various reasons partnerships are sometimes dissolved and liquidated, all the Assets of the firm being realized, and all the creditors paid off; a process which is to a great extent similar, is necessary when a business belonging to a private partnership is sold to a limited company formed for the purpose of acquiring it.

In the event of a partnership dissolution the Partnership Act, 1890, provides that the Assets, upon realization, shall be applied in the following order—

1. In discharge of the debts due to outside creditors.
2. In repayment of *loans* from partners.
3. In repayment of partners' *capital*.
4. The surplus (if any) to be distributed in the same proportion in which profits are divided.

If the Assets should prove to be insufficient to repay claims 1 to 3 as set out above, it is obvious that a loss must have resulted upon realization, and that such loss must be made good in order that the claims of the partners *inter se* may be adjusted. In the event of bankruptcy it is only the debts due to the outside creditors which are allowed to rank as claims against the assets of the firm, and one type of creditors' claim is deferred to the rest of the creditors—viz. loans advanced to a firm the interest upon which varies with the profits made, or in return for which a share of profits is taken in lieu of interest. Upon a loan of this nature no dividend can be claimed until all the other creditors of the firm have been paid in full.

Upon the commencement of a partnership liquidation all the Assets, except cash, belonging to the firm are transferred to an account styled a "**Realization Account**"; to this account the various amounts of cash realized by the sale of the Assets are credited, and when all the latter have been disposed of there usually remains a balance either to the debit or to the credit of the Realization Account, representing the Loss or the Surplus, as the case may be, arising out of the realization.

This balance of Profit or Loss is transferred to a "**Profit and Loss on Realization Account**," and is there divided among the partners in the ordinary way, according to the proportions in which they share profits or losses, unless, of course, any other basis of division is laid down in the Articles of Partnership. The payment of the creditors'

claims is recorded by crediting Cash with all sums so disbursed, and debiting the individual creditors' accounts in the customary manner. After these preliminary steps have been carried out the balance of Cash in hand should tally exactly with the total of the partners' Capital Accounts after the respective share of Profit or Loss on realization (as the case may be) has been transferred to the Capital Account of each partner. If the loss on realization proves to be heavy it sometimes happens that the Capital Accounts of one or more partners disclose a debit balance owing to the fact that the share of the loss on Realization Account chargeable to them is greater than the previous credit balance of such partner's Capital Account. This unfortunate result indicates that the partners concerned must contribute to the firm's banking account a sum sufficient to restore the equilibrium of their Capital Accounts. After this adjustment has been effected the available cash balance will exactly equal the total amounts standing to the credit of those partners whose Capital Accounts show a balance on the right (*i. e.* the credit) side.

These principles are illustrated in the subjoined Example:—

P. Quaritch and R. Smith, trading in partnership as Quaritch & Smith, agree to dissolve the same and to liquidate their business as on December 31, 1908.

Their Balance Sheet, as at that date, was as under—

MESSRS. QUARITCH & SMITH.

BALANCE SHEET, December 31, 1908

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
P. Quaritch, Capital Account	2,000	0	0	Cash.....	200	0	0
R. Smith, Capital Account	500	0	0	Sundry Asse	3,300	0	0
Sundry Creditors	1,000	0	0				
	£3,500	0	0		£3,500	0	0


Profits are shared equally between the partners. The "Sundry Assets" upon being sold realized only £2,000 in cash. The liquidation expenses amounted to £100 (paid in cash). Show the result of the liquidation, the same being concluded on February 1, 1909; any deficiency on either partner's Capital Account is to be paid in in cash, and the balance of cash then available being distributed.

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Dr.		P. QUARITCH, Capital Account						Cr.			
1900.		£		s. d.		1908.		£		s. d.	
Feb. 1	To half-share of Loss on Realization	700	0	0	Dec. 31	By Balance brought forward	2,000	0	0		
" 1	" Cash.....	1,300	0	0							
		£ 2,000	0	0			£ 2,000	0	0		

Dr.		R. SMITH, Capital Account						Cr.		
1900.		£	s.	d.	1908.		£	s.	d.	
Feb. 1	To half-share of Loss on Realization	700	0	0	Dec. 31	By Balance brought forward	500	0	0	
					1909.					
					Feb. 1	„ Cash, deficiency on Capital Account paid in	200	0	0	
		£	700	0	0		£	700	0	0

Dr.		SUNDRY ASSETS						Cr.	
1908.		£	s.	d.	1909.		£	s.	d.
Dec. 31	To Balance brought forward	3,300	0	0	Jan. 1	By Transfer to Realization Account	3,300	0	0
		£ 3,300	0	0			£ 3,300	0	0

Dr.		REALIZATION ACCOUNT				Cr.			
1900.		£	s.	d.	1909.	£	s.	d.	
Jan. 1	To Sundry Assets	3,300	0	0	Feb. 1	By Cash, proceeds of sale of Assets	2,000	0	0
					" 1	" Profit and Loss Account (Loss on Realization).....	1,300	0	0
		£ 3,300	0	0			£ 3,300	0	0

Dr.		SUNDRY CREDITORS				Cr.			
1909.		£	s.	d.	1908.		£	s.	d.
Feb. 1	To Cash.....	1,000	0	0	Dec. 31	By Balance brought forward	1,000	0	0
							<u>1,000</u>	<u>0</u>	<u>0</u>
		£ 1,000	0	0			£ 1,000	0	0

PROFIT AND LOSS ON REALIZATION ACCOUNT

Dr.				Cr.			
		£	s. d.			£	s. d.
1909.				1909.			
Feb. 1	To Loss on Realization of Assets....	1,800	0 0	Feb. 1	By Transfer to P. Quaritch's Capital Account, half-share of Loss.....		
" 1	" Liquidation Expenses ...	100	0 0	" 1	" Transfer to R. Smith's Capital Account, half-share of Loss.....	700	0 0
						700	0 0
		£ 1,400	0 0			£ 1,400	0 0

Dr.				Cr.			
		£	s. d.			£	s. d.
1908.				1909.			
Dec. 31	To Balance ...	200	0 0	Feb. 1	By Sundry Creditors....	1,000	0 0
1909.				" 1	" Profit and Loss Account, Liquidation Expenses ...	100	0 0
Feb. 1	" Realization Account, Proceeds of Assets.....	2,000	0 0	" 1	" P. Quaritch's Capital Account, balance due to him	1,300	0 0
" 1	" R. Smith's Capital Account, deficiency paid in.....	200	0 0			£ 2,400	0 0
		£ 2,400	0 0				

It will be noted that, in the above example, the loss and expenses arising out of the liquidation were heavy, and that, after the realization, R. Smith's Capital Account showed a debit balance, a deficiency of £200 being apparent, while the other partner's Capital Account showed a credit balance of £1,300. The cash remaining on hand amounted to £1,100. Upon R. Smith paying in the deficiency of £200 due upon his Capital Account, the available cash balance was raised to £1,300, which amount was duly paid to P. Quaritch, being the balance due to him as shown by his Capital Account. If, as sometimes occurs, some of the partners in a dissolving firm take over certain specified Assets at an agreed valuation, instead of taking the same sums in cash, no difference in principle arises in the method of accounting. The Assets taken over are debited to the Capital Accounts of the partners concerned at the agreed figure, just as though cash had passed in the ordinary way.

EXERCISES.

15a.

1. Define a partnership and indicate its principal and most usual characteristics.

2. Compare the position of a partner in a private firm with that of a shareholder in a limited liability company.

3. Explain the custom of allowing interest on the Capital Accounts of partners.

4. What numerical limits are legally assigned as regards the partners in a firm?

5. Discuss the question of Goodwill in connection with partnerships.

6. When a new partner is admitted into an existing firm he frequently contributes capital, and pays, in addition, a premium to the previous partners for his admission. Discuss the meaning of these two contributions and show how their method of treatment in the books differs.

7. Explain the terms

Current Account,
Realization Account,

in relation to partnerships.

8. A. and B. are in partnership sharing profits equally, and decide to admit C. as an equal partner with themselves; C. however is unable to contribute any money, either as capital or by way of premium for admission; nor will the financial condition of the business permit immediate cash withdrawals by A. and B. By what arrangement can A. and B. be benefited and C. be penalized out of future profits without upsetting the arrangement that A., B. and C. are to share profits equally?

9. Upon the dissolution of a partnership how are the assets of the firm applied under the Partnership Act, 1890?

10. What are the provisions of the Partnership Act, 1890, as regards—

1. Interest on partners' capital,
2. Interest on loans by partners to the firm,
3. Partner's salaries?

15b.

Henry and Robert James are trading in partnership as James Bros., Henry James's capital on January 1, 1909, being £10,000, and Robert James's capital on the same date, £400.

The partnership deed provides (1) that proper accounts are to be prepared half-yearly; (2) that interest on capital is to be allowed every half-year upon the balance shown by each partner's Capital Account at the commencement of the half-year, at 5 per cent. per annum; (3) that Robert James is to be entitled to a salary of £200 per annum, payable half-yearly out of profits; (4) that the divisible profits are to be shared between the partners in the proportion of three-quarters to Henry James and one-quarter to Robert James.

The profits for the half-year ended June 30, 1909, before providing for the above adjustments, amounted to £950.

Robert James withdrew £180 on June 30, 1909; apart from this no partners' drawings have taken place.

Show the partners' accounts as they would appear in the firm's Ledger.

15c.

Thomas Inwood, trading under the name of Inwood & Co., finds that on December 31, 1908, his books show the following position—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Sundry Creditors.....	2,000	0	0	Cash at the Bank.....	500	0	0
T. Inwood, Capital Account.....	2,000	0	0	Other Assets.....	3,500	0	0
	£4,000	0	0		£4,000	0	0

He decides, as at the above date, to admit Hubert Boorman as partner upon the following terms. H. Boorman is to pay into the firm's banking account £2,000, of which £500 is to be his capital, and £1,500 in payment for his share of the goodwill of the business. T. Inwood is to draw out £500 of this £1,500 and to leave the balance in the business as a loan to the new firm for three years at 6 per cent. per annum.

H. Boorman is to receive a salary of £100 per annum, payable out of profits. Partners' capital accounts are to bear interest at 5 per cent. per annum.

Profits are to be divided as to two-thirds to T. Inwood and as to one-third to H. Boorman.

Assuming that the foregoing transactions were duly carried out on January 1, 1909, that no partners' drawings took place during the year, and that the profits for the year 1909 amounted to £1,800 before allowing for any of the adjustments set forth above, you are requested to prepare the partners' accounts.

15d.

H. Edwards and L. Steel are trading in partnership under the firm name of Edwards & Steel, profits being shared as to two-thirds to H. Edwards, and as to one-third to L. Steel, their Balance Sheet as on December 31, 1908, being as follows—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
H. Edwards, Capital Account.....	1,000	0	0	Cash.....	100	0	0
L. Steel, Capital Account.....	900	0	0	Sundry Assets.....	13,800	0	0
Sundry Creditors.....	12,000	0	0				
	£13,900	0	0		£13,900	0	0

As on January 1, 1909, they admit B. Mervyn as a partner in the business on the following terms—

- (a) Profits are to be divided as to three-sixths to H. Edwards, as to two-sixths to L. Steel, and as to one-sixth to B. Mervyn.
- (b) B. Mervyn is to bring in £500 in cash as his capital.
- (c) A Goodwill Account is to be raised on the books under date

January 1, 1909, for £900; this sum is to be credited to the previous partners in the same proportion in which they shared profits prior to B. Mervyn's admission.

- (d) H. Edwards is to be at liberty to withdraw £200 of his capital on January 1, 1909.
 (e) B. Mervyn is to have a salary of £200 a year out of profits.
 (f) Interest is to be allowed on partners' Capital Accounts at the rate of 5 per cent. per annum; no interest is to be charged on drawings, each partner is to be at liberty to withdraw £20 a month in anticipation of profits, or (in the case of B. Mervyn) in anticipation of profits and salary.

Assume that the foregoing transactions relating to the change in the constitution of the firm have been duly carried out, and that each partner has regularly drawn £20 at the end of each month during the year 1909. The profits for 1909, before making any allowance for B. Mervyn's salary, or for interest on partners' capital, amounted to £1,255. Show the partners' Capital and Current Accounts as they would appear in the firm's Ledger at the close of the year 1909.

15E.

A. Brown and Robert Hicks, trading in partnership, decide, as on December 31, 1909, to dissolve partnership and liquidate the business. Their Balance Sheet as at that date was as under—

LIABILITIES				ASSETS			
	£	s.	d.		£	s.	d.
Capital Account, A. Brown.....	1,000	0	0	Cash.....	500	0	0
Capital Account, R. Hicks.....	850	0	0	Other Assets.....	2,850	0	0
Sundry Creditors.....	2,000	0	0	Goodwill.....	700	0	0
	£3,850	0	0		£3,850	0	0

Profits are shared between the two partners in the proportion of three-fifths to A. Brown and two-fifths to R. Hicks.

The "Other Assets, £2,850," realized only £1,850, and the Goodwill was disposed of for £100. The expenses of the liquidation amounted to £50.

Show the process of realization as it would appear in the firm's Ledger, and the position of the two partners as regards the disposal of the balance of cash remaining after satisfying the firm's liabilities.

Answers.—

15B. Credit Balances of Capital Accounts, June 30, 1909: H. James, £10,000; R. James, £400. Credit Balances of Current Accounts: H. James, £692 10s. 0d.; R. James, £77 10s. 0d.

15C. Credit Balances of Capital Accounts: T. Inwood, £2,000; H. Boorman, £500. T. Inwood, Loan Account, £1,000. Credit Balances of Current Accounts: T. Inwood, £1,170; H. Boorman, £680.

15D. Credit Balances of Capital Accounts: H. Edwards, £1400; L. Steel, £1,200; B. Mervyn, £500. Credit Balances of Current Accounts: H. Edwards, £280; L. Steel, £120; B. Mervyn, £135.

15E. Cash Balance at close of liquidation, £400. Divisible—A. Brown, £130; R. Hicks, £270.

CHAPTER XVI

JOINT STOCK COMPANIES AND THEIR ACCOUNTS

THE accounts of Joint Stock Companies, whatever the particular business may be in which they are engaged, are, of course, as regards their trading aspect, precisely the same as the accounts of a partnership, or those of a sole trader, engaged in a business of a like nature; but as regards the accounts which are kept to record the position of the proprietorate (*i. e.* the shareholders), and the transactions of a "Capital" nature between them and the Company, the books of a Company present special features which require detailed explanation.

✓ An "**Incorporated Company**" consists of a body of persons united for certain definite purposes, under royal or legislative sanction, in such a manner that they form a "corporate body," *i. e.* a fictitious person recognized by the law as a legal entity capable of holding property and incurring obligations.

Companies may be incorporated (1) by the direct enactment of a special statute, *e. g.* the various British Railway Companies, (2) by Royal Charter, *e. g.* the Royal Mail Steam Packet Company, or (3) by the registration of a formal document, called a "**Memorandum of Association**," with a Government official (the "Registrar of Joint Stock Companies") appointed under the Companies (Consolidation) Act, 1908. The great majority of commercial companies are incorporated by the simple process of registration with the Registrar of Joint Stock Companies.

The chief advantage derived from incorporation is the principle of "limited liability." Incorporation also facilitates the raising of fresh capital, and the extension or amalgamation of businesses; it increases borrowing powers, and permits employees easily to acquire an interest in the business, etc.

If a Company be registered with a memorandum of association containing a clause stating that the "liability of the members is limited," no member of the Company

is liable to be called upon to contribute any sum beyond the face value of the actual shares he has agreed to take or the capital he has undertaken to contribute. When he has paid the amount due upon the shares subscribed for by him, he is entirely relieved from the possibility of any further claim to contribute towards the Company's liabilities, and, although he may lose, through the Company's ultimate failure, whatever capital sum he may have invested, he cannot be made liable to contribute anything beyond that sum, however involved in debt the Company may have become.

Companies may be, but are rarely, registered "with unlimited liability," the members being, as regards liability, much the same as the members of an ordinary partnership. Two or three private banks are so incorporated. Companies may also be registered where each member's liability is limited to the amount he guarantees. These also are rare.

The Companies (Consolidation) Act, 1908 (Section 1), enacts that no private partnership of more than *ten* persons shall be formed to carry on the business of banking, nor shall any partnership of more than *twenty* persons be formed to carry on any other business having the acquisition of gain as its object, unless it be registered as a Company. Mining Companies within the stannaries, a form of Company much favoured in Cornwall, and Companies working under letters patent, or a special act of Parliament, are exempt from the above section.

Any *seven* or more persons may combine to form and register a Company under the Companies Acts; and in the case of a special class of limited Companies styled "Private Companies" *two* persons are sufficient for the purposes of incorporation.

In addition to what are known as "**Public Companies**," that is to say, those Companies which have made public issues of their shares, there is a class of Company known as **Private Limited Companies**. A "Private Company" is defined by the Companies (Consolidation) Act, 1908 (Section 121), as one which by its articles of association—

(a) Restricts the right to transfer shares; (b) Limits the number of its members (exclusive of persons who are in the employment of the Company) to fifty. The *Companies Act*, 1913, excludes employees also from the computation; (c) Prohibits any invitation to the public to subscribe for any Shares or Debentures of the Company.

This class of Company is frequently met with in practice, and affords a great convenience in the case of "family businesses," enabling a testator, whose capital is locked up in his business, to divide his estate amongst his children or others without disturbing the financial arrangements of the business, while at the same time limiting the liability of those to whom a share in the business is left.

Private Companies have also the advantage of exemption from the necessity to file annually the "statement in the form of a Balance Sheet" which is obligatory on other Companies under Section 26 of the Companies (Consolidation) Act, 1908. The capital of Private Companies is very frequently held almost entirely by one individual, hence the term "**One-man Company**." *

The fundamental regulations of most Companies contain a statement of the amount of the Company's capital, coupled with a note of the number of separate fractions or "**Shares**" into which such capital is divided; e. g. "the Company's capital shall be £10,000, divided into 10,000 ordinary shares of one pound each." The figure so fixed is in reality nothing more than the *amount of capital which the Company at its inception takes power to issue*, and is called the "**Authorized Capital**"; the Companies Acts require the amount of the authorized capital to be stated in the Memorandum of Association in the case of all Companies incorporated by registration under these Acts, partly, doubtless, because a stamp duty based upon the amount of the "authorized" capital is payable upon registration. Authorized Capital is also called **Nominal** or **Registered Capital**.

Although a Company may, and frequently does, take power in its memorandum of association, or other document, to issue a certain sum of capital or a certain number of shares, it does not follow that it is always either expedient or possible to issue at once the whole of such capital. Indeed, it frequently happens that a public issue of shares is not wholly taken up by investors, the balance of the shares offered in such cases remaining unissued. In many cases therefore the amount of a Company's "Authorized" Capital has no direct connection with the amount of its liability to its shareholders for capital contributions.

The nominal amount of capital which, at any given time, has been taken up by the shareholders is called the

"Issued" or "Subscribed" capital. The amount of a Company's "Subscribed" capital therefore represents the total amount which its members have agreed to contribute.

In addition to the fact that it will be frequently found that the whole of a Company's shares have not been issued, or, if issued, have not been taken up, it is a very common occurrence to find that, upon those shares which have actually been issued, a portion only of the face value has been paid into the Company's coffers. A Company has no legal power to issue its shares for less than their face value, but it is not compelled, unless it requires the money, to call upon the holders of its shares to pay up at the outset the whole of the sum they have contracted to contribute; periodical Calls, as they are termed, can be made of one-half, one-quarter, or whatever other proportion is deemed advisable, of the nominal amount of each share; further "calls" upon the Company's members can be made, as and when needed, until the whole of the face value of the issued shares has been called and paid up.

The total amount actually contributed in cash by the shareholders at any particular date is called the "**Paid-up Capital**"; this amount may obviously differ both from the "Authorized Capital" and from the "Subscribed Capital," *e.g.* the "Authorized" capital of a Company may amount to £10,000, divided into 10,000 shares of £1 each. The "Subscribed" Capital may consist of 5,000 shares of £1 each, *i.e.* £5,000. The "Paid-up" Capital may represent 10s. per share on each of the 5,000 £1 shares subscribed, *i.e.* £2,500. The "Paid-up" Capital of a Company therefore is that amount of the **Called-up Capital** which has actually been paid by its members.

Companies frequently issue more than one type of share, the various classes issued possessing various priorities among themselves, either as to "Capital" or "Dividend" rights or both. In this connection the following definitions may prove helpful, although, as between different companies, shares of the same designation may possess widely different rights.

"**Preference Shares**" are shares possessing some preferential rights over the other classes of shares issued by the Company; it may be that (1) they are entitled to a preferential fixed dividend each year, if sufficient profits are made (these shares are "preferential as regards revenue"), or that (2) in the event of liquidation of the Company

they are entitled to priority of payment out of the assets before any of the other classes of shareholders (these shares are "preferential as regards capital"). In many cases preference shares are "preferential" both as to Capital and Dividend.

If a Preference Share is also described as "**Cumulative**," it implies that the arrears of any fixed dividends due thereon but not paid in any one or more years (owing to the fact that insufficient profits were made out of which to pay them) are carried forward to later years (*i.e.* "**Accumulated**"), until sufficient profits have been earned out of which to satisfy them. If a Preference Share is described as "**Non-cumulative**," it indicates that each trading period is considered, for the purpose of paying dividends on the Preference Shares, as a matter apart; and that unpaid arrears of dividend are not carried forward to future years, and cannot be subsequently claimed.*

"**Ordinary Shares**" are a class of shares entitled, as a general rule, to the whole of the profits made by the Company after the fixed dividends payable on the Preference Shares have been duly discharged.

Shares of the "Ordinary" class have no fixed rights as to dividends, neither have they any claim for priority of payment in case of liquidation. To counterbalance the absence of these advantages they are usually entitled to the larger share of any profits made should the Company prove successful.

Special classes of shares, frequently taking a deferred interest in the profits quite disproportionate to their nominal amount, are also extensively found. These shares are generally called "**Deferred Shares**," "**Founders' Shares**," or "**Management Shares**," and are frequently issued to the originators of the Company, or to their friends.

* The student must not, however, infer from the above that the holders of Preference Shares are *creditors* in the ordinary sense for any dividends which may be in arrear upon their Cumulative Preference Shares. They do not become active claimants until the Company earns sufficient profits out of which to meet the arrears of dividend. For this reason the amount of Preference dividend which may be outstanding at any time is not passed through the accounts. It is, however, in the author's opinion, advisable to insert a note on the face of the Balance Sheet to the effect that arrears of Preference dividends exist, stating the amount due to date. In the absence of such a note it is conceivable that a person contemplating the purchase of the Company's Ordinary Shares might be misled.

In cases where a patent, or other speculative property, is acquired by a company, it is a salutary practice that the vendor shall be paid largely by means of shares, the dividend upon which is "deferred" until the shares contributed by those who find the actual cash with which to launch the venture have received a certain fixed rate of dividend. In these cases the balance of profit remaining, after such fixed dividends have been paid, is frequently divided in agreed proportions between the two classes of shares.

The advantages of limited liability attach to *all* classes of shares in a Limited Liability Company. Dividends cannot be paid to any class of shareholder except out of the profits earned by the Company; the question as to what are a Company's profits, in the legal sense of the term, frequently leads to considerable confusion, and, owing to somewhat conflicting legal precedents dealing with the matter, great difference of opinion, and much controversy, have arisen. x

In the case of some Companies the capital is not divided into "so many shares of a certain money sum each" but into so many pounds sterling of a specified "Stock" of the Company. "Stock" in almost all respects possesses the same characteristics as "Shares"; the rights as to dividend and priority of repayment may be identical in both cases, indeed it is possible for Companies if they so desire, to change their Capital from the one form into the other. "Stock" may be defined as capital consolidated into one mass for the sake of convenience, and is transferable in any fractions, except where otherwise stipulated.

On the other hand, fractions of Shares are not allowed to be transferred, *one* Share being, as a rule, the minimum. Every "Share" bears a distinctive number, while "Stock" possesses no numbers.

The "Share Capital" of a Company is, of course, the proprietors' capital, and corresponds to the partners' Capital in a private partnership. In addition to the issue of Share Capital, Companies frequently raise money in the shape of loans for fixed periods, interest being paid on these obligations quite irrespective of whether the Company's profits are sufficient to pay them or not. Borrowings of this nature are usually secured by the pledge of certain portions of the Company's property coupled with a "General charge," under which the whole of its Assets

are hypothecated. Loans of this nature are sometimes secured by means of separate deeds under the Company's seal given to each individual lender, known as "**Debentures**," setting forth the amount of the loan and its various particulars.

In other cases "**Debenture Stock**" is issued in the same manner as "Preference" and other Stocks are issued. In cases where Debenture Stock is issued trustees are appointed to act for the holders of the Stock, and to hold the charge over the Company's Assets for the protection of the stockholders. "**Debenture Bonds**," if issued, are usually for round sums, *e. g.* £50, £100, £200 and so on, and they may be expressed as payable to the original lender of the money or "to bearer," *i. e.* to the holder of the document for the time being.

In cases where "**Debentures to Bearer**" are issued a sheet of interest **Coupons** is attached. This sheet consists of a number of small "pay orders," detachable as they mature, and representing, in each case, the interest due for a certain half-year or other period, the complete sheet containing coupons covering the whole "life" of the Debenture Bond.

Each coupon when due is detached and presented for payment (usually through a banker), as and where indicated upon the Coupon itself.

Debentures, except "**Bearer**" Debentures and Debenture Stock, are usually transferable from one person to another by deed. The transfer of Bearer Debentures is effected by the simple delivery of the documents themselves. ✕

Companies are usually managed by a small number of persons, generally shareholders, called a "**Board of Directors**." These governing bodies appoint such managers and other officials as are needful for the proper conduct of the Company's business. (The Boards of Directors of reputable and well-conducted undertakings usually consist of influential men possessing, in many cases, expert knowledge of the Company's particular business;) unfortunately, the same cannot be said of the less desirable type of Company, the Boards of which frequently consist largely of individuals placed upon the direction at the instance of the promoter controlling the concern, and possessing neither independence nor business ability.

It is customary for a new Company of standing to make an appeal to the public to subscribe its Capital.

The document setting forth the details of the Company's business, the amount of Capital offered for subscription, the names of the officials and the profits estimated to arise from future trading, is termed a "**Prospectus.**" It is usually stipulated that the Capital offered for subscription, whether in the shape of Shares, Stock, or Debentures, is to be paid up by the applicant in instalments; a deposit is required on "**Application,**" a further payment is to be made, as a rule, when the application is granted by the Board (*i. e.* when the shares are "**Allotted**"), and further "**Calls**" are payable, either upon the dates set out in the prospectus, or as and when deemed to be desirable by the Board of Directors.

Section 285 of the Companies (Consolidation) Act, 1908, defines a prospectus as "any prospectus, notice, circular, advertisement, or other invitation offering to the public for subscription or purchase any Shares or Debentures of a Company." Every prospectus must state the **Minimum Subscription**, *i. e.* the smallest number of Shares that must be subscribed before the Directors can proceed to allotment.

In order to record the capital transactions of a Company, entries must be passed through the ordinary books of account, but, in view of the large number of individual shareholders of which a Company may consist, it is customary to record the necessary entries in the financial books, as far as possible, in totals. Separate statistical books, styled "**Share (or Debenture) Registers,**" are used to record in detail the holdings of individuals with the amounts contributed by them originally, or particulars of the shares acquired by subsequent purchase. ✕

All sums payable to a Company upon its making a public Issue of Shares are usually payable direct to the Company's bankers; and it is with the receipt by the latter of an **Application Form** for Shares coupled with the applicant's cheque for the amount of the application deposit that the entries in the Company's books commence.

The deposits received upon application are debited in detail in the Company's Cash Book, and are credited (preferably in totals as far as possible) to an Account styled the "**Application and Allotment Account.**" It is conceivable that the issue of Shares may be over applied for by the public, and that deposits may have to be returned to applicants who receive no allotment; again,

applicants may receive an allotment of a less number of Shares than they have applied for, in which case any surplus paid on application is usually applied in reduction of the amount payable on allotment, the balance only of the latter instalment then becoming payable.

The Board of Directors go through the "**List of Applications**" and decide the number of Shares which shall be allotted to each applicant; they direct the secretary of the Company to issue to the applicants notices of all allotments made (styled "**Letters of Allotment**"), and upon these letters being duly posted the contract between the applicant and the Company becomes complete; thereafter the former is legally bound to take and pay for the Shares allotted to him upon his application, as and when called upon to do so. On the other hand, prior to the posting of the allotment letter, the applicant is entitled to withdraw his application if he desires to do so.

Upon the "allotment" of a block of capital in this manner the "Application and Allotment Account" should be debited with the total sum payable "on application," and "on allotment" on the whole issue of the Shares so allotted, and this sum should be credited to the "**Share Capital Account.**" When the instalments due on allotment are paid they should be credited to the "Application and Allotment" Account, and to this account should be debited any cheques drawn in favour of those applicants who have received no allotment, or amounts remitted to partly successful applicants, in order to return any deposit, or excess of deposit, which they may have paid upon "application." When, finally, all allotment moneys have been duly received by the Company, the "Application and Allotment" Account should, of course, show no outstanding balance.

The crediting of the total of the allotment moneys in company with the application deposits to the Share Capital Account before the cash has actually been received amounts to an anticipation of events, and a reversing entry may subsequently be needed if any shareholders fail to pay their allotment instalments.

Under the Companies (Consolidation) Act, 1908 (section 92), every Company is compelled, within two months after the allotment of its Shares or Debentures, or within two months after the registration of a transfer of Shares or Debentures, to have complete and ready for delivery the certificates representing such Shares or Debentures.

When the Board of Directors decides to make a "call" upon the members for some further portion of the capital remaining unpaid, formal notices, requesting the payment of the call at a stated future date, are sent out to the members of the Company by the secretary. Upon the call falling due an entry, crediting the Share Capital Account and debiting the "Call Account," is made for the total amount receivable in respect of the call (this resembles the procedure in the case of the "Allotment" moneys). As the various shareholders pay to the Company's bankers the sums due from them, the Company's Cash Book is debited in detail, and the "Call Account" is credited in one or more totals; when the full amount of the call has thus been received the Call Account in the Ledger closes automatically.

For the sake of convenience many Companies arrange with their bankers that the various sums received on application and allotment, and in respect of calls, shall be kept separate and distinct in special accounts under appropriate headings, and with special pass books. From these special accounts sums can be transferred to the Company's General Account from time to time as desired.

In the case of a Company making a public issue as explained above, the Shares issued to the public must be paid for in cash. The law, however, permits "Fully" or "Partly Paid" Shares to be issued in exchange for any kind of valuable consideration other than cash, *e. g.* land, buildings, plant, machinery, book debts, patent rights, goodwill, and even personal service, subject to certain special formalities being complied with; viz. that an agreement between the Company and the vendor setting forth the nature of the consideration which the Company acquires in exchange for the Shares so issued shall be executed and filed with the Registrar of Joint Stock Companies within thirty days after the allotment of such Shares. "Fully" or "Partly Paid" Shares issued in this way in exchange for Assets are frequently referred to as "Shares issued credited as fully (or partly) paid"; if issued as "Partly Paid" the balance due upon the Shares must be paid up in cash as and when the Board of Directors may call for it. Debentures can similarly be issued as fully paid, and in their case a "consideration" (*e. g.* assets) is not legally necessary.

In cases where a Company, specially formed for the purpose, takes over, as a going concern, the Assets and

Liabilities (including the Goodwill) of a pre-existing partnership, a substantial portion of the purchase price is frequently satisfied by means of an issue to the former owners of the business of an amount of shares, stock, or debentures credited as fully paid up; these securities may rank equally with similar securities issued to the public, but if the latter is being approached for the subscription of a large sum of money there is more probability of a satisfactory response resulting if the vendors take securities ranking behind those offered to the public. The announcement that the former owners have agreed to take a large portion of the purchase price of their business in "Ordinary" or "Deferred" Shares naturally evidences their faith in the future prospects of the undertaking, and begets public confidence.

In cases where the whole of the purchase consideration is taken in Cash or in Debentures the attendant issue of Preference or Ordinary Shares may well be avoided by the prudent investor.

In a typical case the new Company takes over from the former owners (the "vendors") certain Assets, together with the Goodwill for a stated amount of money, payable in cash or shares as specified, and in addition assumes the old firm's current liabilities. In such a case the purchase price does not consist solely of the amount of cash or shares issued to the vendors; it embraces the latter amount plus the amount of the Liabilities assumed. Frequently a round sum is mentioned as representing the purchase price of the Assets plus the Goodwill and minus the Liabilities, the detailed purchase price of the individual Assets and of the Goodwill not being specifically mentioned, although, if a public issue be made, the purchase price of the goodwill must be separately stated in the prospectus. In the circumstances detailed above, the individual Assets taken over should be valued at a fair price, and the balance of the purchase money paid must be assumed to represent the Goodwill of the business. Such transactions must be made the subject of a Journal entry in which full details of the matter are set out.

Example.—If a newly-formed Company acquires from an existing partnership £30,000 worth of tangible Assets plus the Goodwill for £50,000, and undertakes to discharge in addition Liabilities amounting to £10,000, the total purchase price amounts to £60,000 (*i. e.* £50,000 plus £10,000), of which £30,000 can be ranked as representing the cost of the tangible Assets, and the balance of £30,000 can only be treated as the cost price of the Goodwill acquired.

A Company purchasing an existing business in this way usually pays for the "Goodwill" acquired a price far higher than a prudent private individual would be likely to give; to this fact is largely due the "Inflated" or "Watered" capitals which are unfortunately so frequently met with in joint stock company enterprise, and the existence of this practice is due to a great extent to the fact that the investor, whose liability is limited, is satisfied with a smaller return per cent. per annum upon his money than is the case with the individual trader whose liability is unlimited.

The foregoing principles are embodied in the subjoined illustration, which is that of a Company formed to take over an existing business for a stated consideration payable in cash, shares, and debentures, and making an appeal to the public for subscriptions.

Example.—Messrs. Grant, Wood & Co.'s Balance Sheet at December 31, 1908, shows the following Assets and Liabilities—

<i>Assets.</i> —		£	s.	d.
Cash	. . . . .	1,000	0	0
Stock	. . . . .	18,000	0	0
Debtors	. . . . .	29,000	0	0
Premises	. . . . .	14,000	0	0
		<hr/>		
		£62,000	0	0
		<hr/>		
<i>Liabilities.</i> —				
Sundry creditors	. . . . .	£12,000	0	0
		<hr/>		

The firm contracts, as on December 31, 1908, to sell their business to a limited Company, incorporated for the purpose under the name of Grant, Wood & Co., Ltd., for £75,000, payable as to £5,000 in cash, £10,000 in fully paid 5 per cent. Debentures, and as to £60,000 in fully paid shares, the Company taking over all the assets set forth above and assuming all the firm's liabilities.

The authorized share capital of the Company is registered as £150,000 in 150,000 shares of £1 each.

The Company, on January 5, 1909, offers for public subscription 60,000 £1 shares payable as follows: 1s. per share on application, 9s. per share on allotment, and 10s. per share on February 1, 1909. Applications, accompanied by the necessary deposit of 1s. per share, were received for 75,000 shares; 60,000 shares were allotted on January 8, 1909, in respect of these applications, in various proportions, amounts overpaid on application being applied towards part payment of the moneys due on allotment. Of the moneys due on allotment £20,100 was received on January 10 and the balance on January 11. The transfer to the Company of the assets acquired from Grant, Wood & Co. took place on January 10, the cash consideration being paid by cheque on the Company's bankers, and the

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shares and debentures being duly allotted on that day to the vendors. The balance of 10s. per share, due from the allottees on February 1, was received by the Company, as to £29,450 on February 1, and as to the remainder on February 2, 1909.

Show these transactions as they would appear in the Company's Cash Book, Journal, and Ledger, bringing down the balances as on February 2, 1909, and preparing a Balance Sheet as on that date.

GRANT, WOOD & Co., LTD.

Dr.		CASH BOOK				Cr.			
1909.		£	s.	d.	1909.		£	s.	d.
Jan. 5.	To Application and Allotment Account— 1s. per share on applications received for 75,000 shares.....	3	3,750	0 0	Jan. 10	By Grant, Wood & Co., Vendors— Cash portion of the purchase consideration...	5	5,000	0 0
" 10	" Application and Allotment Account— Sundry Allotment moneys.....	3	20,100	0 0	Feb. 2	" Balance carried down..	✓	56,000	0 0
" 11	Sundry Allotment moneys.....	3	6,150	0 0					
" 10	" Grant Wood & Co., Vendors— Cash Balance received from them	J.	1,000	0 0					
Feb. 1	" First Call Account— Sundry calls received	4	29,450	0 0					
" 2	Sundry calls received	4	550	0 0					
		£	61,000	0 0			£	61,000	0 0
1909.									
Feb. 2	To Balance brought down	✓	56,000	0 0					

GRANT, WOOD & Co., LTD.

JOURNAL

1909.			£	s.	d.	£	s.	d.
Jan. 8	Sundries	Dr.						
	To Sundries, viz.—							
	Cash.....	C.B.	1,000	0	0			
	Stock	6	18,000	0	0			
	Debtors	7	29,000	0	0			
	Premises	8	14,000	0	0			
	Goodwill	9	25,000	0	0			
	Sundry Creditors	10				12,000	0	0
	Grant, Wood & Co. (Vendors).....	5				75,000	0	0
	For assets, liabilities, and purchase consideration on taking over the business of the late firm of Grant, Wood & Co. pursuant to the purchase agreement of December 31, 1908.							
			£87,000	0	0	£87,000	0	0
8	Application and Allot- ment Account.....Dr.	3	30,000	0	0			
	To Share Capital Account For 10s. per share due on application and allot- ment on 60,000 shares allotted this day.	1				30,000	0	0
10	Grant, Wood & Co. (Ven- dors).....Dr.	5	70,000	0	0			
	To Sundries, viz.—							
	Share Capital.....	1				60,000	0	0
	For shares and debentures issued to the vendors and credited as fully paid up in part settle- ment of the purchase consideration, pursuant to the agreement of December 31, 1908.	2				10,000	0	0
Feb. 1	First Call Account.....Dr.	4	30,000	0	0			
	To Share Capital Account For 10s. per share on 60,000 shares allotted to the public, due February 1.	1				30,000	0	0
			£130,000	0	0	£130,000	0	0

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GRANT, WOOD & Co., LTD.

LEDGER

1				Share Capital Account				1			
Dr.								Cr.			
1909.			£	s.	d.	1909.		£	s.	d.	
Feb. 2	To Balance carried down, 120,000 shares of £1 each....	✓	120,000	0	0	Jan. 8	By Application and Allotment Account, 10s. per share on 60,000 shares allotted to the public.....	J.	30,000	0	0
						" 10	" Grant, Wood & Co., 60,000 fully paid shares allotted, the vendors.....	J.	60,000	0	0
						Feb. 1	" First Call Account, 10s. per share (balance) due on 60,000 shares allotted to the public.....	J.	30,000	0	0
			£	120,000	0 0			£	120,000	0 0	
						1909.					
						Feb. 2	By Balance brought down, 120,000 shares of £1 each.....	✓	120,000	0	0

2				Five per cent. Debentures Account				2			
Dr.								Cr.			
						1909.		£	s.	d.	
						Jan. 10	By Grant, Wood & Co., £10,000 Debentures issued as part of purchase consideration	J.	10,000	0	0
								£	10,000	0	0

3 Application and Allotment Account 3

Dr.				Cr.			
1909.		£	s. d.	1909.		£	s. d.
Jan. 8	To Share Capital Account, 10s. per share on 60,000 shares allotted to the public.....	J.	30,000 0 0	Jan. 5	By Cash, Sundry Application Deposits.....	C.B.	3,750 0 0
				" 10	" Cash, Sundry Allotment moneys	C.B.	20,100 0 0
				" 11	" Cash, Sundry Allotment moneys	C.B.	6,150 0 0
		£	30,000 0 0			£	30,000 0 0

4 First Call Account 4

Dr.				Cr.			
1909.		£	s. d.	1909.		£	s. d.
Feb. 1	To Share Capital Account, 10s. per share on 60,000 shares allotted to the public.....	J.	30,000 0 0	Feb. 1	By Cash, sundry calls.....	C.B.	20,450 0 0
				" 2	" Cash, sundry calls.....	C.B.	550 0 0
		£	30,000 0 0			£	30,000 0 0

5 Grant, Wood & Co. (Vendors) 5

Dr.				Cr.			
1909.		£	s. d.	1909.		£	s. d.
Jan. 10	To Cash.....	C.B.	5,000 0 0	Jan. 8	By Sundries, purchase consideration as per agreement of 31/12/08.....	J.	75,000 0 0
" 10	" Share Capital Account, shares allotted as fully paid.....	J.	60,000 0 0				
" 10	" 5 per cent. Debentures Account, Debentures allotted as fully paid...	J.	10,000 0 0				
		£	75,000 0 0			£	75,000 0 0

6 Stock Account 6

Dr.				Cr.			
1909.		£	s. d.				
Jan. 8	To Sundries, Stock taken over.....	J.	18,800 0 0				
		£	18,800 0 0				

7		Sundry Debtors										7
Dr.					Cr.							
1900.			£	s. d.								
Jan. 8	To Sundries, Sundry Debtors taken over.....	J.	29,000	0 0	<i>Note.</i> — Accounts would, of course, be opened for each Debtor comprised in this total.							
		£	29,000	0 0								

8		Premises										8
Dr.					Cr.							
1909.			£	s. d.								
Jan. 8	To Sundries, Premises taken over...	J.	14,000	0 0								
		£	14,000	0 0								

9		Goodwill Account										9
Dr.					Cr.							
1909.			£	s. d.								
Jan. 8	To Sundries, cost price of goodwill.....	J.	25,000	0 0								
		£	25,000	0 0								

10		Sundry Creditors										10
Dr.					Cr.							
					1909.		£	s. d.				
					Jan. 8	By Sundries, Sundry Creditors assumed as part of the purchase con- sideration.....	J.	12,000	0 0			
							£	12,000	0 0			

GRANT, WOOD & Co., LTD.

BALANCE SHEET, as on February 2, 1909

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Share Capital authorized— 100,000 Shares of £1 each £100,000				Goodwill Account.....	25,000	0	0
Share Capital issued— 60,000 Shares issued to the public for cash..... £60,000				Premises Account.....	14,000	0	0
* 60,000 Shares issued to the vendors and credited as fully paid..... £60,000				Stock of Goods.....	18,000	0	0
				Sundry Debtors.....	29,000	0	0
				Cash at Bank.....	56,000	0	0
<u>120,000</u>	120,000	0	0				
5 per cent. Debentures.....	10,000	0	0				
Sundry Creditors	12,000	0	0				
	£ 142,000	0	0		£ 142,000	0	0

It has already been mentioned that the Share and other Capital transactions of a Company are passed through the financial books of account as far as possible in totals.

Separate statistical books and registers are kept for the purpose of recording the details of these matters, also in order to safeguard the various members' interests and holdings *inter se*. Such books are termed "**Share (or Debenture) Registers**"; in them an account is opened for each individual holder, and separate registers, or sets of registers, are kept for each class of Share or Stock. By the Act of 1908 Share Registers must be kept and be open for public inspection during business hours on payment of a small fee. It has been held that a shareholder is not a member till duly registered.

A form of Share Register is appended containing a specimen account of a shareholder named Henry Norman. He applied on January 6, 1909, for 1,100 shares in Grant, Wood & Co., Ltd. (see previous example), paying 1s. per share deposit; 1,000 shares were allotted to him, and the allotment moneys and first call were duly paid on the respective due dates. This member bought a further 2,000 shares in the open market, at a later date, and the transfer deed was duly registered and approved by the Board of Directors on March 6, 1909; the whole 3,000 shares were subsequently sold by Henry Norman, the transfer for 1,500 of them being approved by the Board on April 10, 1909, and the transfer for the remaining 1,500 on April 16, 1909.

GRANT, WOOD & Co., LTD.

SHARE REGISTER

Name of Member: HENRY NORMAN.

Address: 1764 Cannon Street, London, E.C.

Occupation: Chartered Accountant.

Date of commencing to be a Member: January 8, 1909.
Date of ceasing to be a Member: April 16, 1909.

SHARES DISPOSED OF.					SHARES ACQUIRED.					BALANCE.				
Date.	No. of Folio in Trans-Transfer Register.	No. of Shares.	Distinctive Numbers of Shares.		Amount of Capital paid up. £ s. d.	Date.	No. of Allotment or Transfer.	No. of Shares.	Distinctive Numbers of Shares.		Folio.	Amount of Capital paid up. £ s. d.	Balance.	
			From	To					From	To			Shares.	Capital paid up. £ s. d.
1909. Apr. 10 " 16	207	1,500	{ 34001 35000 72096 72596 72596 74095 3,000			1909. Jan. 6			34001	35000	Cash, Application Money... C.B. 94 Allotted..... A.B. 17 Cash, Allotment in n t	55 0 0	1,000	55 0 0
						" 8					Cash, First Call..... C.B. 171	500 0 0	1,000	1,000 0 0
	212	1,500				" 10					Transferred. T.R. 5	2,000 0 0	3,000	3,000 0 0
						Feb 1								1,500	1,500 0 0
						Mar. 6	Transfer 121	2,000	72096	74095				
								3,000				£ 3,000 0 0		

It is to be noted that each transaction in the above form affects the balance either of capital paid up or shares, and that the balance column requires to be entered up after each transaction.

The particulars at the head of the account are required for the annual list of members, and in order to comply with the requirements of the Companies (Consolidation) Act, 1906.

In order to record the particulars of the applications received in response to the offer of Shares for public subscription by a Company, a separate Statistical Book (or series of loose sheets), called an "**Application and Allotment Book**" (or series of sheets), is employed. These records contain the history of each application from the time it was first received until the Share Registers are compiled subsequent to the allotments having been duly made; it is from the Application and Allotment Book that the Share Registers are written up as regards the names of allottees, and the numbers and distinctive numbers of the shares allotted to them. The separate sums of cash paid by applicants are "posted" from the Cash Book to the credit of the allottees' accounts in the Share Register, although such "posting" forms no part of the double entry in the Company's books of account, the credit in total to the Application and Allotment Account in the Ledger, already described, being the correct contra entry for the debit in the Cash Book.

A specimen page of the "Application and Allotment Book," of Grant, Wood & Co., Ltd., appears on p. 267.

In the first instance the applications are entered in the above book from the application forms themselves as received from the Company's Bankers, and the book is then submitted to the Board of Directors for consideration. Shares when allotted are entered in the "Number of Shares Allotted" column, and the book is thereupon signed by the chairman of the board for identification purposes.

The work attached to transfers of Shares as between vendors and purchasers forms a considerable portion of the Secretary's duties in a large Company. Particularly ~~in this~~ the case where the business of the Company is of a nature which attracts investors with speculative instincts, such, for instance, as a gold mine. In the case of Companies of this class the "Transfer Department" and its staff is frequently far larger than the ordinary Counting House section of the office.

For the preliminary record of transfers a "**Transfer Register**" is kept, which is written up from the Transfer deeds themselves, and, after the approval of each individual transfer by the Board, serves as a posting medium, somewhat in the nature of a Journal, for the subsequent effecting of the necessary entries in the Share Register in the accounts kept both for the seller of

GRANT, WOOD & Co., LTD.

APPLICATION AND ALLOTMENT BOOK

Date.	Number of Application.	Name of Applicant.	Address.	Occupation.	Number of Shares Applied for.	Amount of Deposit paid upon Application.	Number of Shares Allotted.	Distinctive Numbers of Shares Allotted.		Total Amount due on Application and Allotment.	Amount of Deposit (if any) Returnable.	Further Sum due on Allotment.		Share Register.	Cash Book Polio.	Allotment Money.
								From	To			£	s. d.			
1909.			Brought forward...		40,000	2,000 0 0	34,000			17,000 0 0	100 0 0	15,100 0 0	0			1909.
Jan. 6	39	Norman, Henry*	1754 Cannon Street, London, E.C.	Chartered Accountant.	1,100	55 0 0	1,000	34001	35000	500 0 0	—	445 0 0	0	172	109	Jan. 10
" 6	40	Brown, Joseph	Margate, Kent	Farmer	100	5 0 0	10	35001	35010	5 0 0	—	—	—	173	—	—
" 6	41	Harris, Enos	121 Houndsditch, E.C.	Furrier	1,000	50 0 0	80	35011	35090	40 0 0	10 0 0	—	—	174	—	—
" 6	42	Cazendish, Sir Percival Grosvenor	990 Piccadilly, W.	Baronet	200	10 0 0	200	35091	35290	100 0 0	—	80 0 0	0	175	111	Jan. 11
" 6	43	Smith, John	1346 Laburnum Avenue, Tooting	Clerk	20	1 0 0	20	35291	35310	10 0 0	—	9 0 0	0	176	110	Jan. 10
			Carried forward...		42,420	£2,121 0 0	35,310	(Signed) J. D. GRANT, Chairman		£17,655 0 0	£110 0 0	£15,644 0 0	0			

* This allotment relates to the illustration given on p. 272.

the shares (**Transferor**) and the purchaser of them (**Transferee**).

A form of Transfer Register is appended, and the purchase and sales of Shares in Grant, Wood & Co., Ltd. (cf. *supra*), made by Henry Norman have been entered in it by way of illustration. It is desirable that the entries of transfers in this book should be initialed by the Chairman of the Board Meeting at which they are approved.

Some Companies employ special forms of transfer, but, in most cases, the common form is accepted, as illustrated on p. 270.

When applying for shares in a Limited Company the applicant must fill in an official "**Form of Application**," which, together with a remittance for the necessary deposit, must be transmitted to the Company's bankers. The latter retain the form of application for transmission in due course to the Company, and fill in, detach, and hand, or post, to the applicant the form of receipt for the application deposit which is annexed to the application form.

Upon the Directors allotting Shares a "**Letter of Allotment**" is sent by the Secretary to the applicant, informing him that the allotment has taken place, and requesting the payment of the allotment money to the Company's bankers.

Specimen forms of the above documents are on pp. 271 and 272, the details inserted being those relating to the application by Henry Norman for Shares in Grant, Wood & Co., Ltd., as in the foregoing illustration. For each "call" a "**Call Notice**," with form of receipt annexed, is sent by the Secretary. In those cases where no allotment of shares has been made by the Directors, a formal intimation to that effect, called a "**Letter of Regret**," is sent to the unsuccessful applicant together with a cheque for the deposit made by him upon application. Specimen forms of a Call Notice and Letter of Regret appear on pp. 273 and 274 respectively.

As soon after the allotment of Shares as is convenient, and in any event before a "**Special Settlement**" (a day for discharging bargains in the Company's shares) can be granted to the Company by the Committee of the London Stock Exchange, the **Share Certificates** must be ready for delivery to the shareholders. These certificates are formal statements, issued under the Company's seal, setting

GRANT, WOOD & Co., LTD.

TRANSFER REGISTER

Number of Trans-fer.	Date Transfer Lodged.	Date of Transfer Deed.	TRANSFEROR'S			Transferor's Polio in Share Register.	SHARES TRANSFERRED.					TRANSFEREE'S				Transferee's Polio in Share Register.	Number of New Certificate.
			Name.	Address.	Occupation.		Num-ber.	Amount per Share paid.	Capital paid up. £ s. d.	Distinctive Numbers. From To	Name.	Address.	Occupation.				
121	1909. Mar. 6	1909. Mar. 5	Jones, Owen	Llantry-sant	Farmer	69	2000	£1	2,000 0 0			72096/74095	Norman, Henry	1754 Canon St., E.C.	Chartered Accountant	172	1046
307	April 9	April 8	Norman, Henry	1754 Canon St., E.C.	Chartered Accountant	172	1500	£1	1,500 0 0			(34001/35000) 72096/72595	Higgins, Abel	Abertyst-with	Saddler	498	1362
212	April 16	April 8	Norman, Henry	1754 Canon St., E.C.	Chartered Accountant	172	1500	£1	1,500 0 0			72596/74095	Morris, John James (Signed)	West-meath, Stenford Isidore	Esquire	461	1382

Gr. NT,
Chairman.

SHARE TRANSFER.

Impressed
Stamp
£20.

Certificate of the within
mentioned 2,000 Shares has
been lodged at the Com-
pany's Office, Wood,
Robert Wood,
Secretary.

I, Owen Jones, of Llantrysant, Farmer, in consideration of the sum of [See Note] Two thousand pounds paid by Henry Norman, of 1754 Cannon Street, E.C., in the City of London, Chartered Accountant, hereinafter called the said Transferee,

Do hereby bargain, sell, assign and transfer to the said Transferee:—Two thousand (2,000) fully paid shares of one pound each, numbered 72096 to 74095 inclusive, of and in the undertaking called Grant, Wood and Company, Limited.

To hold unto the said Transferee, his Executors, Administrators and Assigns, subject to the several conditions on which I held the same immediately before the execution hereof; and I the said Transferee do hereby agree to accept and take the said Shares subject to the conditions aforesaid.

As Witness our Hands and Seals, this fifth day of March, in the Year of our Lord One thousand nine hundred and nine.

Witness's	Signed, sealed, and delivered, by the above named <i>Owen Jones</i> , in the presence of	}	OWEN JONES.	SEAL
	{ Signature, * <i>Michael Macgillcuddy</i> .			
	{ Address, <i>Llantrysant, Wales</i> .			
Witness's	Signed, sealed, and delivered, by the above named <i>Henry Norman</i> , in the presence of	}	H. NORMAN.	SEAL
	{ Signature, * <i>N. Howell</i> .			
	{ Address, <i>1754 Cannon Street, London, E.C.</i>			
Witness's	Signed, sealed, and delivered, by the above named..... in the presence of	}	SEAL
	{ Signature*.....			
	{ Address.....			
Witness's	Signed, sealed, and delivered, by the above named..... in the presence of	}	SEAL
	{ Signature*.....			
	{ Address.....			
Witness's	Signed, sealed, and delivered, by the above named..... in the presence of	}	SEAL
	{ Signature*.....			
	{ Address.....			
Witness's	Signed, sealed, and delivered, by the above named..... in the presence of	}	SEAL
	{ Signature*.....			
	{ Address.....			
Witness's	Signed, sealed, and delivered, by the above named..... in the presence of	}	SEAL
	{ Signature*.....			
	{ Address.....			

NOTE—The Consideration-money set forth in a transfer may differ from that which the first seller will receive, owing to sub-sales by the original Buyer: the Stamp Act requires that in such cases the Consideration-money paid by the Sub-purchaser shall be the one inserted in the Deed, as regulating the *ad valorem* Duty; the following is the *Clause* in question:—

"Where a Person having contracted for the purchase of any property, but not having obtained a Conveyance thereof, contracts to sell the same to any other Person, and the Property is, in consequence, conveyed immediately to the Sub-purchaser, the Conveyance is to be charged with *ad valorem* Duty in respect of the Consideration moving from the Sub-purchaser"—[64 & 55 Vic., cap. 39 (1891), section 55, sub-section 4].

INSTRUCTIONS FOR EXECUTING TRANSFERS.

* When a transfer is executed out of Great Britain, it is recommended that the Signatures be attested by H.M. Consul or Vice-Consul, a Clergyman, Magistrate, Notary Public, or by some other person holding a public position—as most Companies refuse to recognize Signatures not so attested. When a witness is a Female she must state whether she is a Spinster, Wife, or Widow; and if a Wife she must give her Husband's Name, Address, and Quality, Profession, or Occupation. The Date must be inserted in Words and not in Figures.

Form of Application for Shares.

GRANT, WOOD AND COMPANY, LIMITED.

Incorporated under the Companies Acts, 1908 to 1917.

TO THE DIRECTORS OF GRANT, WOOD AND COMPANY,
LIMITED.

Gentlemen,

Having paid to your Bankers, The London and Eastern Bank, Limited, the sum of £55—, being a deposit of one shilling per share on the number of shares applied for by me hereunder, I hereby apply for —1,100— Shares of one pound, each upon the terms of a prospectus issued by you and dated the 3rd day of January, 1909, and I hereby undertake to accept such shares or any less number which you may allot to me and to pay all further sums due thereon, and to be bound by the regulations of the Company, and I authorize you to place my name upon the register of members.

Signature of applicant—H. NORMAN.*Full name of applicant*—HENRY NORMAN.*Address*—1754 Cannon Street, London, E.C.*Occupation*—Chartered Accountant.*Date*—January 6, 1909.

(Perforation)

GRANT, WOOD AND COMPANY, LIMITED.

Banker's Receipt for Deposit upon Application for Shares.

(To be detached and returned to applicant)

Received this 6th day of January, 1909, of *H. Norman* the sum of *Fifty-five pounds*, being 1s. per share upon 1,100 shares applied for in the above Company.

For THE LONDON & EASTERN BANK, LTD.

CHARLES

STAMP ld.

HILL,

Cashier.£55 : 0 : 0

NOTE.—This form must be sent direct to the Company's Bankers, The London & Eastern Bank, Ltd., 894 Leithbury, London, E.C., with a remittance for the deposit of 1s. per share on the shares applied for. Cheques should be made payable to The London & Eastern Bank, Ltd., or Bearer, and crossed.

Letter of Allotment.

GRANT, WOOD AND COMPANY, LIMITED.

Incorporated under the Companies Acts, 1908 to 1917.

484 CORNHILL, LONDON, E.C.

January 8, 1900.

Allotment No. 39.

6d.
STAMP

DEAR SIR, (or MADAM),

I am instructed by the Directors of Grant, Wood and Company, Limited, to inform you that in response to your application they have allotted you — 1,000 — Shares in the capital of the Company.

The total amount due upon application and allotment on 1,000 Shares allotted you is.....	£500	0	0
You have already paid on application for 1,100 Shares.....	55	0	0

Leaving a balance due from you of.....	£445	0	0
----------------------------------------	------	---	---

which kindly pay to the Company's Bankers, The London & Eastern Bank, Ltd., 894, Lothbury, E.C., forthwith.

Due notice will be given when the Share Certificates are ready for issue and they will then only be delivered in exchange for this letter, accompanied by the receipts for deposit paid upon application, and for the call due on February 1, 1900.

I am, Dear Sir, (or Madam),

Yours faithfully,

ROBERT WOOD,
Secretary.

To HENRY NORMAN, Esq.,
1754 Cannon Street, E.C.

Banker's Receipt for Allotment Money.

Received this tenth day of January, 1900, the sum of *Four hundred and forty-five pounds*, due in respect of the above allotment.

For THE LONDON & EASTERN BANK, LTD.

CHARLES

STAMP

HILL,

Cashier.£445 : 0 : 0

(Perforation).

(This slip to be detached by Bankers and detained by them.)

GRANT, WOOD AND CO., LTD.

Allotment No. 39.

Amount payable, £445.

Note.—This form must be sent direct to the Company's Bankers, The London & Eastern Bank, Ltd., 894, Lothbury, London, E.C., accompanied by a remittance for the amount due on allotment. Cheques should be made payable to The London & Eastern Bank, Ltd., or *Bearer*, and crossed.

Call Notice.

GRANT, WOOD AND COMPANY, LIMITED.

No. 39.

*Notice of First Call of 10s. per share, Ordinary Shares
(making 20s. per share called up).*

484 CORNHILL, LONDON, E.C.

January 25, 1900.

DEAR SIR, (or MADAM),

I beg to give you notice that a First Call of 10s. per Share has this day been made by the Board in accordance with the terms of the Prospectus. On the 1,000 Shares held by you in this Company the call amounts to £500. This amount should be remitted to the Company's Bankers (The London & Eastern Bank, Ltd., 894 Lothbury, E.C.) on or before February 1 next.

I am, Dear Sir, (or Madam),

Yours faithfully,

ROBERT WOOD,

Secretary.

To HENRY NORMAN, Esq.,

1754 Cannon Street, E.C.

(This half to be retained by the Bankers.)

..... (Perforation)

GRANT, WOOD AND COMPANY, LIMITED.

No. 39.

Banker's receipt for First Call of 10s. per share on Ordinary Shares, payable February 1, 1900 (making 20s. per share called up).

Received the 1st day of February, 1900, from HENRY NORMAN, Esq., the sum of £500 : 0 : 0, being First Call of 10s. per Share due February 1, 1900, on 1,000 Shares in the above Company.

For THE LONDON & EASTERN BANK, LTD.,

JAMES

Receipt
Stamp

POUND,

Cashier.

£500 : 0 : 0

(This half, when receipted by the Bankers, must be preserved by the Shareholder, to be exchanged in due course for the Share Certificate.)

NOTE.—This form must be sent direct to the Company's Bankers, The London & Eastern Bank, Ltd., 894, Lothbury, London, E.C., accompanied by a remittance for the amount due. Cheques should be made payable to The London & Eastern Bank, Ltd., or Bearer, and crossed.

Letter of Regret.

GRANT, WOOD AND COMPANY, LIMITED,
484 CORNHILL, LONDON, E.C.
January 8, 1900.

1. *Enclosure.*

To RICHARD COE, Esq., Redhill, Surrey.

Sir,

I regret to inform you that the Directors are unable to allot you any of the Shares of this Company, in compliance with your application for 100 shares of the Company.

I enclose herewith a cheque for £5, being the amount paid by you on the above-mentioned application, and shall be obliged if you will sign the Form of Receipt at the foot of the cheque sent herewith, and present the same for payment through your Bankers.

I am, Sir,

Yours faithfully,

ROBERT WOOD,
Secretary.

No. 3841.

LONDON, January 8, 1900.

To THE LONDON & EASTERN BANK, LTD.,
894 Lothbury, E.C.

Pay to *Richard Coe, Esq.*, or order, the Receipt below being signed, the sum of *Five pounds*.

For GRANT, WOOD AND COMPANY, LTD.
JAMES BUCHET, *Director.*
ROBERT WOOD, *Secretary.*

£5 : 0 : 0

Receipt.

Received of Messrs. Grant, Wood & Co., Ltd., the sum of *Five pounds*, being the amount deposited by me on application for *one hundred Shares* in the same.

RICHARD

Receipt
Stamp

COE.

£5 : 0 : 0

forth the holder's name, and the number of Shares of which he is the registered proprietor. Share Certificates are issued to shareholders in exchange for (1) the receipt for the application money, (2) the allotment letter with

<h1 style="margin: 0;">The Millwall Rubber Company, Limited.</h1>	
<p>CAPITAL . . . £10,000</p> <p>Divided into 10,000 Shares of £1 each</p>	<p>This is to Certify that <i>Mr. Montague Alexander Auld</i></p> <p><i>of 11th Avenue, London, W.</i></p> <p>is the Registered Proprietor of the hundred</p> <p>Full paid up Shares of £1 Sterling each, Nos. [redacted] to [redacted] in</p> <p>THE MILLWALL RUBBER COMPANY, LIMITED, subject to the Articles of Association and</p> <p>Regulations of the Company.</p> <p>GIVEN under the Common Seal of the Company this 1st day of October, 1907.</p> <p style="text-align: right;"> <i>Robert G. G. G. G.</i> <i>Secretary</i> <i>W. Warner</i> </p>

NOTE.—No Transfer of any of the shares comprised in this Certificate will be registered until the Certificate has been deposited at the Company's Office.

the receipt attached for the allotment money, (3) the first (and any other) call receipts for the calls which may have been made, prior to the issue of the Share Certificates. If any of these documents are missing a "Letter of Indemnity" must usually be given to the Company in their place.

No. 1022 £100.

The Crown Chemical Company,
LIMITED
Incorporated under the Companies Acts 1862 to 1900

Registered Office: 12 FENCHURCH STREET, LONDON, E.C.

Issue of £17,000 First Mortgage Debentures to Bearer,
in 150 Debentures of £100 each, 15 Debentures of £50 each, and 10 Debentures of £25 each,
CARRYING INTEREST AT THE RATE OF SIX PER CENT PER ANNUM.

DEBENTURE.

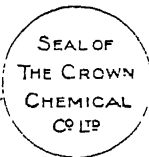
1 THE CROWN CHEMICAL COMPANY LIMITED (hereinafter called "the Company,") will, on the 1st day of December 1914 or on such earlier day as the principal monies hereby secured become payable in accordance with the conditions endorsed hereon, pay to the Bearer on presentation of this Debenture the sum of One Hundred Pounds.

2 The Company will, in the meantime, pay interest thereon at the rate of 6 per cent per annum, by equal half-yearly payments on every 1st day of June and 1st day of December, in accordance with Coupons annexed hereto.

3 The Company hereby charges with such payments its undertaking and all its property whatsoever and wheresoever both present and future.

4 This Debenture is issued subject to and with the benefit of the Conditions endorsed hereon, which are to be deemed part of it.

Given under the Common Seal of the Company
the 1st day of May 1909



SEAL OF
THE CROWN
CHEMICAL
CO LTD

W. J. Rogers ^{Director}
H. Pittman ^{Director}
E. J. Hewitt ^{Secretary}

DIRECTORS

SECRETARY

A specimen form of a Share Certificate is on p. 275, the Shares in this instance being fully paid. Certifi-

ates are frequently issued before the Shares they represent are fully paid, and in such cases, of course, they only set forth the amount of the calls paid prior to such issue; if further calls are subsequently made, and duly paid, the Share Certificate can be endorsed at the Company's office with a memorandum of such further payments upon surrender of the call receipt.

A specimen form of a "Bearer" Debenture is also given on p. 276, and an Interest Coupon on p. 878. ✕

It has already been stated that Shares cannot be legally issued by a Company except upon the condition that their full face value has been received either in cash or in kind; in other words, the shares of Limited Companies may not be "issued at a discount." There is nothing, however, in Company law which prohibits Companies from selling their shares for *more* than their face value if persons can be found who are willing to purchase them at such enhanced prices. The issue of Shares at a price exceeding their face value is termed an issue "**at a premium**," and the amount of the excess over the face value is known as the "**premium**" on the Shares so issued. It often happens that a Company, in the early stages of its career, makes issues of its Shares at their face or **par** value, and when, in later years, the rising success of the undertaking has had the effect of causing the Company's Shares to command a Stock Exchange quotation in excess of their face value (*e.g.* a £1 share may be quoted at $1\frac{1}{2}$, or 25s.), if further Capital becomes necessary the Company, in such a case, will probably offer any further Shares that it may issue to the public at a premium slightly under the current Stock Exchange quotation for the existing shares (*e.g.* say at 24s. per share, a premium of 4s. per share). The smaller premium, as compared with the Market quotation, naturally causes the new shares to be sought after, with the result that the public subscription will probably be favourable.

Premiums received on the issue of Shares should be placed to a separate account in the Ledger entitled "**Premiums on Shares Account**," and should, under most circumstances, be allowed to remain there. In the face of the existing legal precedents it cannot be claimed with any certainty that it is legally permissible to treat these premiums as a profit made by the Company, and as capable of distribution by way of dividend among the shareholders, but this procedure, whether legal or not,

would, in most cases, be financially unwise. The premiums so obtained by an issue of Shares are sometimes placed to the "Reserve Account," but, if this course is pursued, it is suggested that they should be put to the credit of a separate Reserve Account, earmarked with the source from which it was derived, and not to the General Reserve Account, otherwise there is danger of their being used for dividend purposes, or for the reduction of the value of Assets, the wastage upon which should have been provided for out of Revenue.

Debentures may, in point of law, be issued either for cash or in exchange for property or services, and for a lesser or greater sum of money or assets than their face value. This apparent anomaly, as compared with the conditions under which shares are issued, arises out of the fact that a Debenture issued by a Company is merely a promise to repay a species of loan, and that the holder of a Debenture Bond is nothing more than a *creditor* (or frequently a mortgage creditor), and is not in any sense a *partner* (shareholder) in the Company.

Premiums received on the issue of Debentures should be placed to a separate account or to a special Reserve Account, as indicated above, when dealing with the issue of Shares. If a Company issues a Debenture at a premium it thereby borrows more than it undertakes to repay, and it is not possible to urge with the same emphasis the objections to the division of these premiums by way of dividend among the shareholders which apply in the case of premiums received upon an issue of Shares. All that can be said is that it is usually financially imprudent to so divide moneys which represent a "capital" receipt at any time before the repayment of the sum borrowed has been effected.

When Debentures are Issued at a Discount, that is to say, for a less amount of cash than the amount they undertake to repay at maturity, the "Debentures" Account must be credited with the full amount to be repaid at maturity, this course being essential in order that the full amount of the Company's liability may appear upon the books. The cash (or assets) received will, of course, be debited to Cash (or Assets) Account in the ordinary way, and the "discount," being the difference between the money (or assets) received and the sum undertaken to be repaid, must be debited to an account styled "**Discount on Debentures Account.**" This account should be gradually written off by means of equal periodical transfers to Profit

JOINT STOCK COMPANIES' ACCOUNTS 279

and Loss Account spread over the term of years for which the issue of Debentures has to run.

In this manner the Loss incurred on the redemption of its borrowings (which is the practical effect to the Company of an issue of Debentures at a discount) becomes spread equally over all those years which have presumably benefited by the employment of the borrowed capital. Of course, if considered expedient, the "Discount on Debentures Account" can be written off over a shorter period than that covered by the "life" of the Debentures which are so issued at a discount.

An example of the issue of Shares at a premium and the issue of Debentures at a discount is subjoined—

Example.—The Brake Manufacturing Company, Ltd., issued on December 31, 1908, 50,000 £1 Ordinary Shares, at a premium of 4s. per Share, and £40,000 4½ per cent. First Mortgage Debentures at 94, the Debentures being repayable "at par" (*i. e.* at their full nominal value) on December 31, 1928.

The securities are to be paid for as follows—

	SHARES.	DEBENTURES.
On application 10s. per share (including the 4s. premium)		£4 0 0 per cent.
On allotment 14s. " "		£90 0 0 "
Total..... 24s. per share.		Total..... £94 0 0 per cent.

Show the necessary Journal entries to record the allotments of the two classes of securities and the Company's Balance Sheet after they have taken place. The Allotment duly took place on January 5, 1909, applications having been received for the exact amount of Shares and Debentures offered to the public.

JOURNAL

1909.		£	s.	d.	£	s.	d.
Jan. 5	Application and Allotment Account (Shares)	60,000	0	0			
	Dr. to Share Capital Account				50,000	0	0
	" Premiums on Shares Account				10,000	0	0
	For the total amount due from sundry shareholders on application for, and allotment of, 50,000 £1 shares at the price of 24s. per share.						
" 5	Sundries						
	Dr. To 4½ per cent. Debentures (1928) Account				40,000	0	0
	Viz. Application and Allotment Account (Debentures)	37,600	0	0			
	Discount on Issue of Debentures Account	2,400	0	0			
	For cash receivable and discount on issue of £40,000 Debentures.						
		£100,000	0	0	£100,000	0	0

THE BRAKE MANUFACTURING COMPANY, LTD.

BALANCE SHEET as on January 7, 1909

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Share Capital Issued— 50,000 Shares of £1 each.....	50,000	0	0	Cash.....	97,600	0	0
Premiums received on Issue of Shares.....	10,000	0	0	Discount on Issue of £40,000 $4\frac{1}{2}$ per cent. Debentures, repay- able 1928.....	2,400	0	0
$4\frac{1}{2}$ per cent. First Mort- gage Debentures, rep- ayable December 31, 1928.....	40,000	0	0				
	£100,000	0	0		£100,000	0	0

Forfeited Shares

In cases where a Company issues Shares which are to be paid for in instalments (*e. g.* so much on application, so much on allotment, and the balance as and when “called up” by the Directors), it frequently happens that some shareholders fail to pay all the instalments due from them.

In such a case the Company usually, under a normal set of Articles of Association, has power to treat the Shares as forfeited.

A “forfeiture” of Shares embodies the following features—

1. The defaulting shareholder ceases to be a member.
2. His Shares in the Company lapse; whatever moneys have been paid on the Shares prior to the forfeiture become the absolute property of the Company.
3. The forfeiture is usually “without prejudice to the right of the Company to sue the defaulting member for the calls he has failed to pay,” and such member can generally therefore be sued for the calls notwithstanding the fact that he has ceased to be a member.
4. The Company may reissue to any person the Shares which it has declared forfeited. It may issue them to that person on his undertaking to pay up the amounts unpaid by the previous holder (in which case the person so taking the forfeited Shares gets the benefit of the sums paid by the defaulter), or for such

higher price as the intending applicant for the Shares may be willing to give. The only restriction as regards the price of reissue is that the Company must have received from the defaulting member and the subsequent allottee, taken together, not less than the full face value of the Share.

The forfeiture of Shares is a procedure of a penal nature as regards the defaulting member, and such measures, preliminary to forfeiture, as are prescribed by the Company's Articles of Association must be followed out with the utmost care, otherwise the courts may hold the forfeiture to be invalid.

It will be remembered, that as regards the book-keeping of a Company, the instalments due on Shares (whether for the moment in the Company's coffers, or outstanding as debts due to it from its members), are all credited in the Share Capital Account at the time of their falling due, and in anticipation of their receipt ultimately. If, therefore, any members fail to fulfil their obligations to contribute the instalments of capital due from them, entries must be passed to record the default.

At the time of the forfeiture of a member's Shares such sums as he has paid on them will be in the Company's possession (debited to cash), and the amounts of which he is in default will be standing to the debit in the appropriate call account (representing the debt due from him to the Company), and the total of these two items will have been credited, as already explained, to the Share Capital Account.

Upon the forfeiture of Shares, therefore, the entries required are as under—

Firstly. The Share Capital Account must be debited with the *whole* amount paid or due by the defaulting member on his Shares; this entry is needed because the issue of the Shares is now cancelled by the forfeiture.

Secondly. "Forfeited Shares" Account or "Amounts received on Forfeited Shares" Account must be credited with whatever amount had been paid on the Shares prior to forfeiture.

This sum practically represents a profit made by the Company, and so appears as a credit balance.

Thirdly. The amounts due from the defaulter on his Shares but not paid must be credited to the respective Call Accounts upon which the liability of the shareholder

appears to the debit. The effecting of this credit entry has the result of reversing the debit previously made in these accounts when the unpaid calls originally became due; *e.g.* if a member originally applied for 100 £1 shares and paid in all £75 thereon, and the Shares were subsequently forfeited owing to the nonpayment of £25 first call, the position at the date of forfeiture would be that £100 would have been credited to the Share Capital Account and that £25 would appear to the debit on the First Call Account.

The entry requisite to record the forfeiture would consequently be as follows—

Debit Share Capital with £100 (reversing the previous credit entry),

Credit Forfeited Shares Account with £75 (for the £75 previously paid on them, which £75 has now become the Company's property),

Credit First Call Account with £25 (thus causing the pre-existing debit balance of £25 on this account to disappear).

The necessary Journal entry would take the following form—

	£	s.	d.	£	s.	d.
Share Capital .....Dr.	100	0	0			
To Sundries, viz.—						
Forfeited Shares Account.....				75	0	0
First Call Account				25	0	0
In respect of 100 Shares, 15s. paid, now forfeited by the Board owing to nonpayment of the First Call of 5s. per Share.						

Upon the reissue of any forfeited Shares the entry passed at the time of their forfeiture must be reversed; and, in making this entry, any payment made by the second allottee, over and above the amount of the calls left unpaid by the original allottee, must be placed to "Premium on Shares" Account. The amount of calls left unpaid at the date of forfeiture may be redebited at the time of reissue to the particular call account (or accounts) in question, or it may be debited in company with any premiums paid to the second allottee's personal account. *E.g.* If the Board of the Limited Company already referred to decides to reissue to A. Brown the 100 shares forfeited in the example given above, A. Brown paying the 5s. call left unpaid by the original allottee, plus a premium

on reissue of 7s. 6d. per Share, the requisite Journal entry would be—

	Dr.	£	s.	d.	£	s.	d.
Sundries							
To Sundries—							
Forfeited Shares Account.....		75	0	0			✓
A. Brown		82	10	0			
Share Capital Account.....					100	0	0
Premium on Shares Account.....					87	10	0 ✓
For 100 Shares previously forfeited, 15s. per Share paid, now reissued to A. Brown at a premium of 7s. 6d. per Share, to be paid by him in addition to the outstanding call of 5s. per Share.							

Any amounts which have accrued to the Company on Shares forfeited by it should be shown in the Balance Sheet as a separate item on the Liability side: the amount should neither be merged in the Capital nor credited in the Profit and Loss Account, but should be regarded as an item held in suspense pending the possible reissue of the Shares at a later date. ✕

A Company almost invariably sustains, at its inception, various items of expense arising out of its formation and issue, and these expenses are commonly treated in a somewhat special manner, being debited to an account styled "**Preliminary Expenses Account**"; this account is, for the moment, regarded as a fictitious Asset Account, and is written off to the Profit and Loss Account as rapidly as possible in instalments spread over the first few years of the Company's existence. It is preferable to write off the Preliminary Expenses of a Company over the first three years, if practicable.

The expenses which are thus treated usually comprise some or all of the following—

1. Legal and other fees and stamps paid on the incorporation of the Company, and on the transfer to it of any property which it was formed to acquire.
2. Cost of printing and circulating the prospectus.
3. Cost of printing and circulating the allotment letters and call notices, including the impressed stamps on the former.
4. Cost of advertising the prospectus.
5. "Underwriting commission" paid on any Shares or Debentures underwritten (*i.e.* the subscription

of which has been guaranteed by financiers and others, termed "underwriters"), and commission paid to persons procuring underwriting.

6. "Brokerage" paid to stockbrokers introducing applicants whose application forms bear the broker's name.
7. Cost of the Share Certificates, Debenture Certificates, etc.

All Companies incorporated under the Companies (Consolidation) Act, 1908, must hold annual meetings of members at which audited accounts are almost invariably submitted. Dividends, when earned, are declared at these meetings; and, in addition, the Board frequently has power to declare interim dividends on its own responsibility. An "Interim Dividend" is one which is declared at an intermediate date between the commencement and close of a financial period, and should only be declared when the profits are deemed to be ample. Dividends may not be declared unless sufficient profits have been made to cover them, but Debenture interest, being interest on a loan, must always be paid whether profits are sufficient to cover the amount due or not, otherwise the Company will "make a default," and thereby entitle the Debenture holders to enforce their security.

Annual returns and summaries, containing the names, addresses, and holdings of the shareholders, together with other particulars, have to be transmitted to the Registrar of Joint Stock Companies, made up to a date fourteen days after the first annual meeting in each year.

In addition to the **Share Register** (Register of Members) a Company, under the Act of 1908, is required to keep—

1. **Register of Directors,**
2. **Register of Mortgages and Charges,**
3. **Minute Books.**

Lists of allotments, copies of the Debenture Bonds issued, and of the Annual Lists and Summaries are also required by law. Over and above these requirements the exigencies of administration usually demand that a Company shall keep various Statistical Books, together with a "Director's Attendance Book," "Transfer Register," "Agenda Book," and other books concerning the secretarial department.

When, in the fulness of time, a Company has come to

the end of its period of activity, whether through gradual decline or unfavourable environment, internal mismanagement or lack of success, or (a most frequent cause in the case of mining companies) having fruitlessly spent all its money, the services of a "**Liquidator**" are called in to wind up the concern, pay its creditors as far as the Assets will permit, and make such return of capital to the shareholders as may be possible under the circumstances. In cases where a Company has issued Mortgage Debentures, the holders of the latter are entitled to apply for the appointment, by the High Court, of an officer termed a "**Receiver**" (usually a professional accountant, nominated for the purpose), whose duty it is to seize, and hold, on their behalf, such portions of the Company's property as are charged by the Debentures, or by the Trust Deed covering them, and to realize the property under the directions of the Court in order to effect the distribution of its proceeds among the Debenture holders.

In result there are sometimes two officials, the Liquidator and the Receiver, concerned in winding up an insolvent concern. In such a case the Receiver for the Debenture holders is usually able to seize the larger portion of the Assets under the power conferred by the Debentures, and the Liquidator has very little to do until the Debentures have been paid off. The offices of Receiver and Liquidator are sometimes advantageously combined in one appointee, and it has been judicially stated that the appointment of one person to hold the two offices is desirable.

A Liquidator may be appointed either by the High Court or by the County Court, in a "**Compulsory**" winding up, or by the shareholders of the Company, in a "**Voluntary**" winding up. Complicated official forms are provided for the account keeping of the "**Compulsory**" Liquidator, but the "**Voluntary**" Liquidator's accounts may be compiled and rendered much according to his discretion.

At the close of a voluntary liquidation the Liquidator should render, in summarized form, an account showing the process of winding up; the statement prepared for this purpose is rendered in the form of a Cash Account. An illustration of such an account is subjoined.

Example.—The Alpha Steamship Company, Ltd., went into voluntary liquidation on January 4, 1909. From the following particulars

prepare the Liquidator's Realization Account for submission at the final meeting of Shareholders.

	£	s.	d.
Proceeds of sale of ss. <i>Alpha</i>	5,027	16	0
Proceeds of sale of materials and stores	109	17	2
Sundry Debts recovered	269	16	9
Sundry Assets realized	11	0	0
Law Costs	102	17	9
Liquidator's remuneration and disbursements	157	10	0
Insurance on sundry assets	1	0	4
General Expenses of liquidation	24	17	6
Unsecured Creditors paid in full	642	19	0
Debentures paid in full—			
Principal, £1,500; accrued interest,			
£39 5s. 4d.	1,539	5	4
Preference Shares—			
Capital repaid in full	2,500	0	0
Ordinary Shares—			
Returned to Shareholders at rate of 10s. per			
share on 900 shares of £10 each	450	0	0

THE ALPHA STEAMSHIP COMPANY, Ltd.,
in Liquidation

Liquidator's Summary of Accounts

RECEIPTS.	£	s.	d.	PAYMENTS.	£	s.	d.
Proceeds of Property realized—				Expenses of Liquidation—			
ss. <i>Alpha</i>	5,027	16	0	Law Costs	102	17	9
Stores and Materials...	109	17	2	Liquidator's Fee and			
Sundry Debtors.....	269	16	9	Disbursements	157	10	0
Sundry Assets	11	0	0	Insurance	1	0	4
				General Expenses	24	17	6
				Debentures repaid in full	1,500	0	0
				Interest thereon.....	39	5	4
				Unsecured Creditors paid			
				in full.....	642	19	0
				Capital returned to Share-			
				holders—			
				Preference Shares,			
				Capital repaid in full	2,500	0	0
				Ordinary Shares, re-			
				turn of 10s. per Share			
				on 900 Ordinary			
				Shares of £10 each	450	0	0
	£	5,418	9 11		£	5,418	9 11

Shareholders can obtain further information on application to the undersigned,

HENRY HARROW, F.C.A.,
Liquidator.

349 St. William's Chambers, London, E.C.,
June 30, 1909.

EXERCISES

16A.

1. What is meant by an "Incorporated Company"?
2. Compare (1) Limited Liability Companies, (2) Unlimited Liability Companies, (3) Commercial partnerships, as regards the position of their members.
3. Explain the terms: Authorized Capital, Issued Capital. Paid-up Capital, Memorandum of Association.
4. What are the numerical limits of membership—
 - (a) Of banking partnerships,
 - (b) Of other partnerships?
5. What is meant by a "private company"? Discuss its advantages.
6. Explain the terms: Shares, Preference Shares, Cumulative Preference Shares, Ordinary Shares, Deferred Shares. Out of what circumstances do the latter usually arise?
7. What is the difference between Shares and Stock?
8. What are "Debentures"? Discuss briefly the legal position of the Debenture holders of a Company as compared with the shareholders' legal position.
9. Explain the terms: Directors, Prospectus, Allotment.
10. How does a holder of a Debenture Bond payable to Bearer obtain payment of his periodical interest?

16B.

1. Explain in detail the procedure and the transactions consequent upon a Company making a public issue of a portion of its Share capital.
2. Can (a) Shares and (b) Debentures be issued in exchange for a consideration other than cash? Can either of these classes of securities be issued "at a discount"? Explain what is meant by the last expression.
3. What is meant by issuing Shares and Debentures "at a premium"? How should such premiums be treated in the books of a Company?
4. Discuss the question of Goodwill in its relation to Joint Stock Company accounts.
5. What books are kept by a Company to record the interests in it of its various members? Do such books form an integral part of its system of accounting?
6. Explain the nature of a "Forfeiture of Shares for non-payment of calls," and the subsequent "Reissue" of such shares "at a premium."
7. Can (1) Dividends on shares, (2) Debenture interest, be legally paid by a Company which is losing money continuously on its trading operations and possesses no accumulated profits earned in past years?
8. Explain generally what is meant by (a) Compulsory liquidation, (b) Voluntary liquidation.
9. What is a "Receiver for Debenture holders"? What are his duties?
10. What is the maximum of the liability of a member of an Unlimited Liability Company?

16c.

The Exotic Mining Company, Ltd., with an authorized capital of £50,000, undertook on June 1, 1909, to buy the "Exotic" and "Eldorado" gold mining claims from the General Agency Company, Ltd., for £10,000, payable as to £1,000 in cash, as to £4,000 in fully-paid Ordinary Shares, taken at par, and as to £5,000 in 6 per cent. First Mortgage Debentures.

On June 7, 1909, the Company offered for subscription 40,000 £1 Ordinary Shares at a premium of 2s. per share, payable 5s. per share (including 2s. premium) on application, 5s. per share on allotment, and the balance of 12s. per share on July 15, 1909.

Applications were received for 35,950 shares, all of which were allotted on June 10, 1909. All allotment moneys were duly paid on June 14, 1909.

The purchase agreement was carried out on June 10, 1909, the requisite allotments of Shares and Debentures and the payment of cash then being made.

All shareholders, except one holding 100 shares, duly paid the calls due on July 15.

The shares belonging to the defaulting member were declared to be forfeited by the Board on July 31, and were reissued by the Board on August 7 to the chairman (the Hon. Hugo Porter, M.P.), on his paying in cash the 12s. per share left unpaid by the original allottee.

Pass these transactions through the Company's books of account, and prepare a Balance Sheet at their conclusion.

16d.

Robert Coe, of Fairvale, Somerset, potato grower, applied on January 1, 1909, for 1,000 shares in the Erratic Motor Omnibus Company, Ltd., issued at par, paying 2s. per share on application.

These 1,000 shares were allotted to him on January 3, 1909, numbered 180365 to 181364, and he duly paid the allotment instalment of 8s. per share on January 4.

On January 5 he bought a further 1,000 shares, 10s. paid, numbered 24062 to 25061 on the Stock Exchange at a price of 11s. per share, free of stamps and brokerage, the transfer for the same being lodged with the Company on January 5, and approved by the Board the same day.

On January 16 he paid the First Call of 10s. a share on his 2,000 shares, thus making them fully paid.

On February 5 he sold the whole of his holding on the Stock Exchange at 18s. per share, free of stamps and brokerage, the transfer being lodged with the Company and approved by the Board on February 10.

Show a ruling of a Share Ledger and a Transfer Register for the Company, inserting in the latter the details of the foregoing transactions as far as they apply, and giving in the former R. Coe's account as a member of the Company.

Also show R. Coe's Investment Account as it would appear in his own Ledger, assuming that the purchases and sales of shares were paid for on the day of their occurrence.

Answers.—

16c. Balance Sheet totals, £48,545; Cash Balance, £38,545.

16d. R. Coe's Investment Account: Loss, £250.

CHAPTER XVII

INCOME TAX

IN these days, Income Tax suffers from such continual changes, that it is impossible to deal with it finally or exhaustively in a general text-book. It is proposed, therefore, to devote the present chapter to a brief consideration of the broad principles governing the administration of the tax, rather than to the details of its assessment. The treatment is purposely elementary in parts, because so many examinees betray a lack even of elementary knowledge of the subject. At the outset, the author ventures to warn the student against dogmatising upon points of Income Tax practice, a fault to which the student would appear to be somewhat prone. Unlike the student, the professional accountant is aware of the diversity of practice followed by different Inspectors and Commissioners; and he knows, also, that a comprehensive knowledge of the subject comes only from practical experience gained by frequent attendance before the Income Tax Inspectors (formerly called *Surveyors*) and Commissioners, and a wide acquaintance with the extremely numerous legal precedents established in contested cases.

The Income Tax Acts.—Income Tax was first introduced by Mr. Pitt in 1799, when 10 per cent. was imposed on annual incomes derived from property and employments. The *Income Tax Act, 1803*, introduced the five schedules, which, as modified, still form the basis for the collection of the tax at the present day. Income Tax was abrogated in 1815, but reimposed by the *Income Tax Act, 1842*. This Act remained the principal Act, until the *Income Tax Act, 1918*, came into operation on April 6, 1919. The latter Act, with later amendments, contains the regulations now governing the assessment

and collection of the tax. The *Income Tax Act*, 1853, extended the tax to Ireland. The *Finance Act*, 1907, granted relief by reducing the tax payable on "earned" incomes not exceeding £2,000 per annum. The Act of 1910 extended this relief, and granted an allowance in respect of children. The same Act imposed *super-tax*, for the first time. Super-tax is an additional Income Tax levied upon *individuals* whose incomes exceed a fixed annual sum. In 1910, the sum was £5,000, but this was reduced by stages to £2,000. The *Finance Acts*, 1911-1915, extended or modified the relief granted under previous Acts. The Act of 1915 contained regulations for the collection of Income Tax from weekly workers, and also regulations for the assessment of Excess Profits Duty (see *post*). The *Finance Act*, 1918, imposed, in effect, a tax on bachelors by granting relief to married men, whose incomes were within certain limits, in respect of their wives. The *Income Tax Act*, 1918 (see *ante*) is a consolidating Act, repealing all previous Income Tax Acts, except the regulations which govern Excess Profits Duty as set out in the *Finance Acts* of 1915 (2) to 1920. The *Finance Act*, 1920, reconstructed the basis of assessment in respect of exemption, abatement, and relief. Every tax-payer is entitled to the same treatment with the one exception of the amount deductible from earned income. Under this Act, assessment is simplified, and, for the first time, a "Corporation Tax" on limited companies (see *post*) was imposed.

Nature of the Tax.—Income Tax was originally imposed purely as a war measure, but it is now a permanent part of our fiscal system, and is annually reimposed by Parliament in the *Finance Act* of each year, which incorporates or amends the provisions of the previous Acts. Its management and collection devolve upon the Board of Inland Revenue. The tax is calculated at so many shillings, or shillings and pence on each pound sterling of taxable income. The principle controlling the collection of the tax is that the income shall, as far as possible, be taxed *at its source*; that is to say, the person paying, or providing income to, or for another person, is compelled to deduct and retain for the Government the tax payable on such income. Thus limited companies are taxed on their profits, *as a whole*, before they are distributed amongst the shareholders, and they pay to each shareholder his proportion of the profit less the

amount of tax paid on his behalf. The tenant of a house is taxed upon the rent he pays, and *subsequently* recovers the amount of the tax from the landlord. The Bank of England, when paying interest to the holders of Consols or War Loan, deducts the tax due to the Government thereon. But in this connection it is to be remarked that, in the case of some loans issued to finance the war, the principle of taxing income at the source has not been followed, the interest being paid *gross*. This departure was necessary owing to the large number of small investors in these loans, who, not being liable to tax at the full rate, would have been entitled to claim repayment had the full rate of tax been deducted.

The Five Schedules.—Income liable to tax is classed according to its nature, and the source whence it is derived, in five Schedules, indicated by the letters (A), (B), (C), (D), and (E), appended to the *Income Tax Act* of 1918. Each Sch. has its own particular rules for determining the annual income with which it is concerned, and there are also general rules applicable to all five Schedules. The five classes of income so scheduled are as follows:—

Schedule (A).—This is concerned with income arising from the ownership of House Property, Land, Buildings, and similar property, and also with profits derived from working or occupying land, *e.g.* from Quarries, Collieries, Iron Works, Canals, Railways, and concerns of a like kind. The basis of assessment is the annual rent or value, in the case of House Property or Land, subject to a deduction of one-sixth in the case of House Property and Buildings, and of one-eighth in respect of Land, Farm-houses and Farm-properties. Under this Sch., occupiers of premises are required periodically to make a return, and this is compared for assessment purposes with the Poor Rate valuation of the local Rating Authority, and, where necessary, a fresh assessment is made based on the estimated rental value of the property to a yearly tenant. The tax under this Sch. is collected direct from the occupier, and where he is not the landlord but a tenant, the law empowers him to deduct the tax paid to the Government from his next payment of rent to the landlord. If the annual rent of the premises is under £10, the tax is collected direct from the landlord. Where the owner of the premises is exempt from Income Tax because his income is too small, or where he is entitled

to abatement, or to assessment at a lower rate, he has a right of claim against the authorities for recoupment of the tax deducted by the tenant, and if the claim is made in proper form, and proved, it succeeds. Recently, the authorities have begun to give effect to the relief and allowances to which a property owner may be entitled, whether the property be occupied by him or let, the new procedure obviating the deduction of tax by the tenant at a higher rate or larger sum than the owner is liable to pay. This treatment will considerably reduce the claims for repayment. The tax payable under Sch. A is commonly known as the *Property Tax*, but really it is a division of the Income Tax, and comes within the rules set forth later, applicable to questions of abatement, exemption, or relief.

If, as frequently occurs, a person uses the premises owned by him solely for the purpose of business, he is compelled to pay, under Sch. A, the ordinary tax on the annual value, or rather, allowing for repairs, upon five-sixths or seven-eighths of it. In computing the amount of his trading profits for the year, for Income Tax under Sch. D (see *post*), he is permitted, however, by way of "set off," to include, as a deduction from his trading profits, the amount of the annual value of his premises on which duty has been paid under Sch. A.* If the premises upon which the tax under Sch. A has been paid consist of a dwelling-house occupied by the owner partly for business and partly for domestic purposes, a deduction of such part of the Sch. A "Annual value" *not exceeding two-thirds* thereof, as may be allowed by the Commissioners, is permissible when preparing a statement for assessment under Sch. D. This apportionment is occasionally unjust; and, in an exceptional case with "extenuating circumstances," the author obtained the full Sch. A assessment. The same rule of apportionment applies to rates. All such items as coal, gas, etc., must be reasonably apportioned.

Property of some classes is entitled to certain exemption, viz. Public Buildings, the offices of University Colleges and Halls, Hospitals, Public Schools, Almshouses, Literary and Scientific Institutions, Friendly Societies,

* Less ground rent, or other annual charge, *e.g.* Interest on Mortgage. In the case of Mills, Factories, and similar buildings, the *full* annual value, without deduction of one-sixth, is allowed as a deduction.

Trade Unions, Savings Banks, etc.—*Income Tax Act, 1918* (ss. 37–41).

The “annual value” of Quarries is assumed to be the trading profit of the preceding year; of lands occupied for the purpose of mining, the average trading profit of the past five years, subject to certain provisions relative to unavoidable stoppage or other failure. The “annual value” of land occupied by Iron Works, Canals, Railways, and similar undertakings, enjoying income arising from land, or the occupation thereof, is assumed to be the trading profit of the preceding year. The “trading profits” referred to above are arrived at in precisely the same manner as those of an ordinary trading concern, as described later under Sch. D.

Schedule (B).—This Sch. relates to the profits arising from the occupation of agricultural land, as *e.g.* by farmers. Agricultural land is, in addition, chargeable with Income Tax on the annual value under Sch. A, as is the case with houses and buildings. A fixed “annual value” is estimated by the assessors for each such piece of land in the same manner that a fixed annual value is adopted in the case of buildings, etc., for assessment under Sch. A, and upon *double* this annual value Income Tax is charged. If the Commissioners are satisfied that the land is not occupied, or is mainly occupied for the purpose of farming, the land is assessed at the same value as under Sch. A.

The farmer, however, has the option of claiming to have the profits arising out of the occupation of his holding assessed as if he were an ordinary trader, *i. e.* under Sch. D, which, as will be explained later, deals with the profits arising from businesses and vocations. If he claims to be so assessed, he must make a return under Sch. D, and is then treated just like any other trader. The rough-and-ready way of arriving at the profits made by farmers was due, in the first instance, to the fact that very few farmers were adept at keeping accounts. Up to 1915 farmers were assessed under Sch. B upon an amount equal to one-third of the annual value (Sch. A assessment). In that year the full annual value was ruled to be the assessable value under Sch. B. In 1918, the assessments were increased to double the annual value with the obvious intention of compelling farmers to make proper returns of their profits for assessment under Sch. D. To further this end, the Inland Revenue Authorities

issued instructions to farmers as to the methods of keeping proper books and accounts. The improvement made in agricultural book-keeping was recognized by the more recently granted option of assessment under Sch. D, if desired; and even when assessed under Sch. B, remission of an overcharge can be obtained if it can be proved to have occurred by the production of satisfactory accounts. On the other hand, should the Sch. B assessment prove to be less than the profits made, the Crown has no power to surcharge the taxpayer. Farmers are, of course, entitled to all the statutory allowances described later on in this chapter. Persons occupying woodlands, if worked on a commercial basis, are entitled to be assessed on such holdings under Sch. D, as though such occupation were distinct from the assessments.

Schedule (C) relates to Interest and Dividends payable in the United Kingdom out of "Public Funds," whether Imperial, Colonial or Foreign. This Sch. covers interest paid on Consols, War Loans, and other Government Stocks, Public Annuities, etc.; the tax on this type of Income is deducted from the amount of interest, etc., due to the investor, and is paid over to the Inland Revenue Authorities in one lump sum by the bank or other agent entrusted with the payment of the dividends.*

Schedule (D) relates to Income derived from professions, trades, and other occupations, and any Income not included in the other branches of the tax. It therefore covers the profits of any trade, profession, employment, or vocation; interest on money received without tax having already been deducted; profits from colonial and foreign securities received without tax having been deducted; profits from letting furnished houses; and any other profits not specifically enumerated above or falling under the classifications set out in Schedules A, B, C and E. The profits derived from any property or employment, whether originating in this country or abroad, are taxable under this Sch. if the taxpayer is resident in the United Kingdom.

The Sch. is divided into six "Cases," viz. *Case I*, Profits from Trade, Manufactures and Commerce not covered by any other Sch.; *Case II*, Professional Incomes and Occupations not within any other Sch.; *Case III*, Profits of an uncertain annual value, and Discount, Interest, Annuities and other annual payments; *Cases IV*

* Except as stated on p. 291.

and V, Income from Securities and Possessions abroad; and *Case VI*, any Profits and Gains not within any other Case or Sch. Profits under *Cases I, II* and V are charged upon an average of three years. The charge under *Case III* is based upon the profits arising in the preceding year, and, under *Case IV*, tax is charged upon the profits arising in the year of assessment.

Sch. D is the Sch. under which trading profits, other than those previously stated as assessable under Sch. A, are assessed for taxation, and it is therefore the Sch. with which the book-keeper is most intimately concerned. The figure of annual profits, upon which tax under Sch. D is payable, is not the figure which would be shown by the ordinary Profit and Loss Account of a trader as prepared upon prudent and business-like lines, but is a "statutory" figure of Income computed according to the rules laid down by the Income Tax Act, and the accumulated precedents, and, further, it is an *estimate* made in advance, arrived at in accordance with these rules and regulations, and represents what the trader is legally deemed to *expect* to receive in the way of Profits or Income during an ensuing Governmental year. If the actual profits of the trader are more than the assessable profits, he is not called upon to pay more than the amount assessed. On the other hand, if his actual profits are less no reduction is made in the assessment unless "specific cause" can be shown. The various rules, so far as they can be definitely stated, governing the computation of the statutory figure of Income referred to above are summarized later on in this chapter.

The assessment under this Sch. is in the hands of the "Additional Commissioners," who are chosen by the General Commissioners, and the basis on which the tax is assessed is a formal return made by the taxpayer. Official printed forms for the purpose are sent to all taxpayers, who are required to return them within a specified time properly filled in. The taxpayer can be compelled to verify the correctness of his return by the production of his accounts, and should he default in making a return, the Commissioners may assess him upon their own estimate.

Under the *Income Tax Act*, 1918, s. 105, every employer is required to prepare and deliver to the assessor a return of the names and places of residence of any persons employed by him, and of the payments made

to them in respect of their employment, unless such total payments do not exceed the limit fixed for total exemption from Income Tax, viz. £150 per annum. Forms of Returns for this purpose are usually enclosed with the ordinary return forms sent annually to the taxpayer. In the case of companies or corporate bodies the Secretary is considered to be the employer for the purposes of this section.

Schedule (E).—This Sch. relates to salaries, fees, wages, perquisites or profit of any description arising out of an office held in, or employment by, a Government department or office, a public body, a Company or Society, and is charged upon the holder of such office, or employment, in respect of such salary, or other remuneration, as he *is entitled to receive in the year of assessment*. The assessments are made on the assumption that the taxpayer will continue in such employment, or hold such office, throughout the year. If, after an assessment has been made, the taxpayer's salary, wages, or other remuneration, is increased, an additional assessment is made upon him, and further additional assessments can be made, if necessary, in order that the full amount of salary, wages, or remuneration may be assessed in the year in which it is received.

The only departure from this basis of assessment occurs in respect of *fees* and *perquisites* mentioned above, the amount of which is obviously uncertain. In these cases, the recipient is entitled to be assessed on the amount received in the previous year, or on the average of the three preceding years; but, even in such cases, additional assessments can be made so that the full income for the year may be assessed. As an act of grace, Inspectors will generally allow the subordinate employees of public Companies and Societies to average their earnings in order that they may not be disadvantageously treated as compared with the employees of private firms.

It must be borne in mind that Sch. E, although governing the assessments of Directors, Managers, Secretaries and other officials of Limited Companies, whether public or private, does not govern the assessment of the profits of these companies. Such undertakings are assessable under Sch. A, or D, according to the nature of the business.

Schedule (D).—More detailed reference must now be

made to this Sch. which, from the accountant's point of view at any rate, is the most important of all the Schedules.

As already stated, this Sch. relates principally to income derived from "trades, professions, and other occupations," but the student must realize that Income Tax is not a tax upon *net profits*, as determined by ordinary commercial methods. It is a tax upon *income*, as that term is interpreted by the Income Tax Act and the rules appended thereto. The two terms are not synonymous, and much heart-burning would be saved if the taxpayer would grasp this essential fact.* To take a simple example: Robert Jones has been in business for one year as a boot manufacturer, and has made a net profit of £1,000, but he lost £500 of this sum owing to the collapse of a mining company in which he purchased shares. His "income" for the year, for Income Tax purposes, is assessed by the authorities at £1,000, the loss of £500 being regarded as a "loss of capital," which is not chargeable against his profits.

We proceed to deal with the main points of this Sch. requiring consideration:—

Method of Preparation of Schedule (D) Assessment.—

It was mentioned above, that, early in each Governmental year (the Government year runs from the 6th day of April in one calendar year to the 5th day of April in the next) officials, known as "Assessors," send, to all persons of whom they have cognizance, official forms to be filled in and returned by the taxpayer.† An oath or declaration of secrecy as to the information contained in these returns is required from all Commissioners, Inspectors, and others (*Income Tax Act*, 1918, s. 89). The management of the tax, under this Sch., is subject to the "Commissioners of Inland Revenue," who are, *ex officio*, also "Special Commissioners" for the tax. The details of administration are in the hands of the Board of Inland Revenue, and of officials known as "Chief Inspectors of

* The Earl of Halsbury said, "It appears to me that there is a mixture, not to say a confusion, of thought in using the word 'profits' in a sense which is not consistent with the mode in which it is used in the statutes relating to Income Tax" (*Pontypridd Main Sewerage, Braid v. Bensted*).

† The well-known yellow forms are officially designated as "Forms Nos. 1 and 11." Every person called upon is liable to make a return whether chargeable with duty or not (*Income Tax Act*, 1918, s. 89).

Taxes" and "Inspectors of Taxes," the former being promoted from amongst the experienced Inspectors. The duties of Chief Inspectors are mainly supervisory; it is with the Inspectors that the taxpayer comes most frequently in contact.

The Rule of "Averages."—Where Income is derived from the exercise of any profession or business, the amount of Income to be returned by the taxpayer* for assessment in any given year, is neither the actual Income of that year, nor the Income expected to be made during that year, but is a "statutory" Income (*i. e.* an arbitrary figure calculated according to the prescribed rules), computed from actual ascertained results of previous years, subject to adjustment by means of certain "allowances" or "disallowances" which may be made according to the rules of the case governing the assessment.

The Income assessable under Sch. D is Income, not falling under any other Sch., which has not already been taxed at its source. This rule always applies, whatever be the amount of the taxpayer's Income. But where the taxpayer claims exemption from assessment under Sch. D, or that he is entitled to recover from the Authorities tax on Income falling under any other Sch., because his total Income from all sources, under all Schedules, taxed or untaxed, is below certain statutory limits, he must state, on another page of the ordinary form, the amount of his total Income under all Schedules, taxed or untaxed, and so demonstrate the justness of his claim. If the taxpayer is entitled to repayment, the completion of the claim section of the Return does not ensure repayment; a separate claim must be made, as is explained hereafter.

The amount of Income arising from Trades, Professions or Occupations taxable under this Sch. is computed upon an average of the three years preceding the actual year of assessment, and these three years may end either on April 5 in the calendar year of assessment, or on a date prior thereto up to which the taxpayer's profits have

* The term "taxpayer" includes Limited Companies, Partnerships and Societies, and the onus lies upon some responsible official to make a return in the same manner as an individual taxpayer. A Limited Company is not, however, entitled to any abatement exemption or relief, which, under certain conditions, may be claimed by private traders and partners.

usually been ascertained. Thus, in his return for the Government year April 6, 1919, to April 5, 1920, the trader would use his Profit and Loss Accounts for the three years ended April 5, 1919, or if, as usually is the case, he makes his accounts up to the end of December (or to some other month in each year), *e. g.* December 31, he can employ his ordinary Profit and Loss Accounts for the last three completed years, *e. g.* the Profit and Loss Accounts for the years ended December 31, 1916, 1917 and 1918 respectively.

Under these provisions, very few taxpayers pay upon the basis of the actual Income of the year. This creates an apparent hardship in those years when heavy losses are made, and, consequently, all finances need to be rigidly conserved. For, no matter how large a loss is likely to occur in the current year, the tax must be paid upon the *average* of the past three years. It is true that, in due course, the bad year will come into future averages, but this is small consolation when, in a year of strained finances, a heavy sum has to be paid out in cash by way of tax on the average of past results. In the event of an actual loss occurring, a repayment may be claimed, under s. 34 of the Act of 1918, of the amount of tax upon so much of the loss as is represented by aggregate statutory Income of the individual, partnership, or limited company upon which tax has been paid. In such case the year in which the loss is made drops out of the average. Prior to the year April 5, 1907, the taxpayer also had the advantage under s. 133 of the *Income Tax Act*, 1842, and s. 5 of the *Revenue Act*, 1865, of alleviation in circumstances of this kind, because he was allowed to substitute the trading result of the actual year of assessment for that of the first of the three years, the average of which formed the ordinary basis of assessment. These sections were repealed by the *Finance Act*, 1907.*

In the case of *new businesses*, the *Income Tax Act*, 1918 (Sch. D, Cases 1 and 2, Rules 1 and 8) provides that the tax ultimately payable upon the profits of each of the first three years shall not be more than the tax on the *actual* profits of each year. If the business is a new one, and has been established for a less period than three years, the average yearly profits of the period preceding

* The 1914 (2) *Finance Act*, s. 13 (subsequently incorporated in the *Income Tax Act*, s. 43) temporarily reinstated this relief to meet cases affected by the war.

the year of assessment must be taken, or if the business was commenced within the actual year of assessment, an estimate of the profits expected to be derived from the business must be furnished.* Assessments made upon these two classes of estimate, *i.e.* where business commenced within the year of assessment or within three years, can be rectified subsequently, and any tax overpaid can be recovered when the actual results of the current year are to hand (*Income Tax Act*, 1918, Sch. D, Cases 1 and 11, Rules 1 and 8). In cases, therefore, where a business has been established for less than three years, the profits of the first year would form the basis of the assessments for the first and second years; and in the third year, the average profits of the two preceding years would form the basis. For the fourth year the full average would be available for computation of the tax. In the author's experience it is the practice in some districts to take the actual profits of each year as the basis of assessment until the average of the three completed years is available.

Persons carrying on two or more businesses may set off the loss incurred in one against the profit made in another (*Income Tax Act*, 1918, Sch. D, Cases 1 and 11, Rule 13.)

Where the ownership of a business has changed hands, the profits of the business must be assessed upon the three years' average, as though no change had taken place. If, however, the new owners can show that the profits will fall short of the old average, from a specific cause arising out of the change of ownership, permission will usually be granted to treat the business as a new one (*Income Tax Act*, 1918, Sch. D, Cases 1 and 11, Rule 11.)

Many items of "loss" or expenditure which a prudent trader ordinarily includes in his Profit and Loss Account are disallowed as deductions from trading profits by the authorities, and other items of "loss" are only permitted to be included at smaller figures than those at which the trader has deemed it prudent to charge them in his accounts. Consequently, in preparing a statement of income for return to the Income Tax Authorities, the trader must *add* to his profits (as appearing in his Profit and Loss Accounts) certain types of actual "loss" or

* Or a request may be lodged that the assessment be postponed until the accounts for the complete year are available.

expense which are disallowed by the Inland Revenue as charges against such profits. Where the trader's Profit and Loss Accounts show net losses the "disallowed charges against profits" must be extracted, and any permissible deductions brought into account in the ordinary way. It is only when this process has been gone through that the taxpayer, although his accounts may show an actual loss, can rest assured that he is free from the payment of tax under Sch. D. An actual trading loss may, and frequently does, owing to the surcharge of various "disallowances," etc., work out at a "statutory" profit, upon which tax has to be paid.

Deductions.—The various items which the trader is allowed to deduct, and those which he is prohibited from deducting, are taken from the "Instructions" sent to taxpayers with the annual forms:—

Deductions are allowed—

For repairs of premises occupied for the purposes of the trade, etc., and for the supply or repair of implements, utensils, or articles employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding.

For debts proved to be bad; also for doubtful debts to the extent that they are respectively estimated to be bad.

For the rent of premises used solely for the purposes of the business, and not as a place of residence.

For a proportion, not exceeding two-thirds, of the rent of any dwelling-house partly used for the purposes of the business.

For the Annual Value of any premises within the United Kingdom occupied by the Owner solely for the purposes of the business, and not as a place of residence—less ground rent, if any. (The Annual Value to be taken for this purpose is the amount on which tax has been paid under Sch. A, except in the case of Mills, Factories, or other similar premises, in respect of which the Annual Value to be taken is the amount of the Sch. A assessment *before* reduction by the statutory allowance for repairs and maintenance.)

For a proportion, not exceeding two-thirds, of the Annual Value (according to the amount on which tax has been paid under Sch. A)—less ground rent, if any—of any dwelling-house within the United Kingdom occupied by the Owner and partly used for the purposes of the business.

For (in the case of a trade) one-sixth of the Annual Value of any Mills, Factories, or similar premises situate outside the United Kingdom and occupied by the Owner for the purposes of the trade. Annual Value for this purpose is to be computed according to the principles governing the estimation of the Annual Value, for the purposes of Sch. A, of similar premises in the United Kingdom—that is, in general, by reference to the rack-rent at which the premises are worth to be let by the year.

For any sum paid as Excess Profits Duty, Corporation Profits Tax or Munitions Exchequer Payments—except any Excess Profits

Duty chargeable by virtue only of the provisions of the Finance Act, 1918, relating to profits arising from the sale of trading stock otherwise than in the ordinary course of trade.

For (in the case of a trade) so much of any amount expended in replacing obsolete plant or machinery as is equal to the cost of the plant or machinery replaced, after deducting from such cost (a) the total of any allowances already made for the wear and tear of such plant or machinery and (b) any sum realized by its sale.

For any other disbursements or expenses wholly and exclusively laid out for the purposes of the trade, etc.

Where a clergyman or minister pays rent for a dwelling-house, or is in the occupation of a dwelling-house but pays no rent therefor, and uses any part of such house mainly and substantially for the purposes of his duty as a clergyman or minister, a corresponding part of the rent or Annual Value of the house, not exceeding one-eighth, may be claimed as an expense. Any amount so claimed should be specifically shewn on p. 2 of the Form No. 11.

No deductions are allowed—

For any interest on capital, for any annual interest, annuity, or other annual payment, payable out of the profits or gains, or for any royalty or other sum paid in respect of the user of a patent. (The tax on such interest, patent royalty, or other annual payment should be deducted from the person to whom the payment is made.)

For any sums paid as salaries to proprietors, or for drawings by proprietors.

For any sums invested or employed as capital in the trade, etc., or in respect of capital withdrawn therefrom.

For any sums expended in improvement of premises or written off for depreciation of land, buildings, or leases.

For any loss not connected with, or arising out of the trade, etc.

For any expenses of maintenance of the persons assessable, their families, or establishments; or for any sum expended for any other domestic or private purpose.

For any loss recoverable under an insurance or contract of indemnity.

For any sum paid as United Kingdom Income Tax on profits or gains, or on the Annual Value of trade premises. (Colonial or Foreign Income Tax paid in respect of the profits in the place where they arise may, however, be deducted.)

For wear and tear of machinery or plant, or for any premium for life assurance; but allowances may be claimed in respect of these items; see pp. 2 and 4 of the Form No. 11, and Notes (8) and (14).

Untaxed Income.—Every person is bound, under heavy penalties, to make a return of his or her untaxed income in spite of the fact that no form of return may have been sent to them to fill in. Even if they have no untaxed income, they must enter the word "none" in the space provided for "Return of Untaxed Income," and must sign the declaration and forward the form to the Assessor.

If a taxpayer is entitled to any allowances, the "Claim" Sections of the form must be completed. Omission to complete the "Claim" Sections penalizes the taxpayer, since the authorities cannot grant allowances unless they are claimed in proper form. In cases where a taxpayer is not entitled to any allowances, there is no need to complete any section except the "Return of Untaxed Income," unless the Revenue Authorities ask for a return of "total income."

Untaxed income generally consists of: (1) Unearned income of the preceding year from which tax has not been deducted—the exception under this heading consists of income from foreign investments and possessions which is dealt with later on. (2) Average profits, or earnings, from any kind of business, trade or employment other than salaries, fees, commission, etc., received from Limited Companies, Government Departments, Public Bodies, etc. (3) Any income (casual or otherwise) received in the previous year—or average of one year.

If the taxpayer claims any relief or allowances, he must enter his total income in the "Claim" Section (p. 3 of the return form). In this section he must enter the income he has already disclosed in the "Return of Untaxed Income" (p. 2 of the return form). He must also enter *any income which he will receive* during the year from which tax will be deducted at its source, or any income which he will receive, and which is taxable under any other schedule, e. g. *Sch. A*, The annual value of property, land, etc., whether occupied or not; *Sch. B*, Farm assessments; *Sch. C*, Income from Government securities, taxed at source; *Sch. D*, Dividends, interests, etc., taxed at source. In cases where such income is uncertain, the previous year's dividends should be entered.

From the "Total Income," arrived at as described above, the taxpayer should deduct any charges upon his income which will become payable during the year, e. g. Ground Rent, Interest Annuities. etc.

ALLOWANCES AND DEDUCTIONS

Repayment Claims.—To obtain the allowances to which a taxpayer may be properly entitled, he must fill up one of the usual Income Tax forms. The allowances due will then be made from any untaxed income which is

directly assessable upon the individual. If the untaxed income of a taxpayer is insufficient to cover the total allowances to which he may be entitled, it is necessary that a "Repayment Claim" should be made at the close of the fiscal year—or within three years from the end of the fiscal year for which a claim is made. A claimant can recover overpayments for one, two or three years' assessments upon a single claim form. The completion of the usual Income Tax Return does not, in itself, constitute a "Repayment Claim," so that, if after making such Return and receiving an assessment notice, the taxpayer finds that further allowances are due to him, he must make a "Repayment Claim" at the end of the year—or an interim claim at the half-year to October 5. The first year's Income Tax Repayment Claim is dealt with by the local Inspector of Taxes (his address can be obtained from the collector mentioned in the return form), and from him the necessary forms can be had. Subsequent Repayment Claims are examined and adjudicated by the "Claims Branch" of the Inland Revenue at Australia House, London, W.C. 2.

When making claims of this kind, the taxpayer must set out in detail, on the "Repayment Claim Form," the whole of his income whether taxed direct or at source. The income to be returned is the gross income (including wife's income), *i. e.* (a) the net amount received in the form of dividends, interest, etc., taxed at source plus the amount of the tax deducted; (b) the actual salary, wages or trade profits upon which tax has been paid; (c) the actual annual value (rateable value in London) of any property or land owned by the taxpayer; (d) the Sch. B assessment of any farm cultivated by the taxpayer, or the assessed profits derived therefrom if this method of assessment has been previously arranged with the Inspector of Taxes; (e) any untaxed interest upon which tax was paid in the year in respect of which the claim is being made. From the total income arrived at as above there should be deducted any ground rent, tithes (if not allowed in the Sch. A assessments), mortgage or loan interest, annuities (excluding voluntary allowances or payments), or any other charges on income which can be legally claimed.

In connection with dividends, it should be clearly understood that, for Income Tax purposes, there is no such thing as a "free of tax" dividend. All Company

dividends are *paid out of profits*, and all profits are taxable. The amount received by the shareholder, therefore, is his share of the net profits after the Company has paid, or provided for, the Income Tax due on such profits. For example, whilst Income Tax remains at 6s. in the £, a 7 per cent. "free of tax" dividend is equivalent to a 10 per cent. "less tax" dividend. It is the Company which is responsible for the Income Tax, whether it takes a lump sum out of its profits for Income Tax purposes and pays a "free of tax dividend," or declares a gross dividend from which it deducts Income Tax when distributing it among the shareholders. The amount of income from the shareholder's point of view is the same in either case. The difference between the two classes of dividends is—to take an illustration—this: the holder of fixed 7 per cent. "free of tax" shares is always entitled to a net dividend of 7 per cent. whatever the current rate of tax may be, whilst the holder of fixed 10 per cent. shares subject to Income Tax would get only 5 per cent. net dividend if the tax went up to 10s. in the £, or 7½ per cent. net if the current rate of tax was 5s. in the £.

When preparing Income Tax Repayment Claims, it is necessary to set out the Income in detail, and to attach to the form all the Income Tax deduction Certificates (counterpart warrants) given by Company Secretaries or other persons, paying dividends or interest or deducting tax from mortgage interest, etc., and also all the receipts given by the Income Tax Collectors for the tax paid during the year under adjudication.

Insurance Premiums.—A taxpayer who has effected an insurance, or taken a deferred annuity, on his own life, or that of his wife, with any office legally established in the United Kingdom, or in any British Possession, and "lawfully carrying on business in the United Kingdom," or with a registered Friendly Society, may—in addition to any claims for "personal allowances" to which he may be entitled—claim an allowance of all the tax "at appropriate rates," upon the annual premiums paid in respect thereof, *up to and not exceeding one-sixth of his total net income from all sources*, nor more than £100 in all in respect of premiums on deferred annuities. The allowance in respect of each premium is limited, however, to 7 per cent. of the capital sum payable at death under the policy, and in no case may this concession afford any

greater relief than is allowable on the taxpayer's total income. Moreover, this relief cannot be applied to Super-tax assessments.

When such claims are made, the Inspector of Taxes usually calls for the production of the official receipts for the assurance premiums paid. Accident insurance premiums (up to £100) are only allowed as deductions when the policy covers the risk of death. Claims on account of any life assurance premiums paid, if not fully or partially allowed from the taxpayer's assessments, may be preferred for three years back by using the special form, obtainable from any Inspector of Taxes, issued for the purpose by the Revenue Authorities.

The deductions allowed in respect of life assurance premiums also extends to any compulsory deduction which may have been made from a taxpayer's stipend, or salary, for the purpose of providing an annuity for his widow or provision for his children. The *Finance Act, 1919*, made it clear that insurance premiums paid by a married woman out of her separate income in respect of a policy on her own, or her husband's, life may be treated as though paid by the husband.

The deductions allowed from the tax payable upon the taxable income are the amounts which represent tax at the appropriate current rates upon the premiums paid, viz:—

- (a) Total Incomes not exceeding £1,000—half the standard rate (*i.e.* 3s. for 1920–21).
- (b) Total Incomes exceeding £1,000 but not exceeding £2,000—three-fourths of the standard rate (*i.e.* 4s. 6d. for 1920–21).
- (c) Total Incomes exceeding £2,000—at the full standard rate (*i.e.* 6s. for 1920–21).

The deduction in respect of insurances effected after June 22, 1916, is limited to half the standard rate upon the premium paid (*i.e.* 3s. in 1920–21). No allowance is made for deferred insurances which do not secure the payment of a capital sum at death, if they were taken out after the above date, except in cases where they are in connection with a *bona fide* pension scheme.

Where it is found that the taxpayer whose income is less than £1,000 or £2,000, as the case may be, has, by

reason of the difference in the appropriate rate of tax upon his insurance premium, paid more tax than would have been the case if his income had exceeded £1,000 or £2,000, a further deduction will be allowed, viz. the sum by which tax at one-fourth of the standard rate upon the premium exceeds the tax at the standard rate upon the difference between the total income and £1,000 or £2,000, as the case may be.

Personal Allowances and Deductions.—Prior to the *Finance Act, 1920*, personal allowances and deductions were granted under the heads "Exemption, Abatement and Relief." All persons whose incomes from all sources did not exceed £130 per annum were exempt from tax. Those with annual incomes exceeding £130 but not exceeding £700 were granted abatements ranging from £120 to £70. Relief was granted in respect of wives, children and dependants to those whose incomes did not exceed £800 per annum. Incomes were classified as "earned" or "unearned," and the tax imposed was graduated in its incidence up to incomes of £2,500 and £2,000 respectively.

The *Finance Act, 1920*, revised the whole basis of abatement and relief. Under this Act, all taxpayers, irrespective of the amount of their incomes, are on an equal footing in respect of claims for "earned" income, wives, children and dependants. The only difference is the graduated relief in respect of allowances for Life Assurance premiums as set out above.

Personal Allowance.—Every person is now entitled to deduct from his assessable income a personal allowance, if a bachelor or widower, of £135, or of £225 if a married man, and his wife is living with, or wholly supported by, him. The personal allowance of £135 applies also to spinsters and widows. Thus single persons whose total assessable incomes do not exceed £135, and married persons whose incomes do not exceed £225, are *wholly exempt from tax*. If a man's total income includes income earned by his wife, a further allowance of nine-tenths of the wife's earnings can be claimed, but not exceeding the sum of £45. In such cases, then, the maximum personal allowance is £270.

Allowance on Earned Income.—Every person, including a spinster or widow, is entitled to reduce his or her *earned* income, irrespective of amount, by 10 per cent.,

not exceeding a maximum sum of £200, for the purpose of arriving at the amount of assessable income from all sources during the year.

Deduction in Respect of Relatives Taking Charge of Children.—A widower, or widow is entitled to a deduction of £45 from his or her assessable income in respect of a female relative (on either side) residing with him, or her, for the purpose of taking charge of a child or children. This allowance is not granted unless it can be proved that no other person is receiving a similar allowance in respect of the female relative, neither is it granted if the husband (if any) of the female relative is receiving the full personal allowance of £225 per annum. A similar allowance is granted in respect of any female not related to the claimant where it can be shown that no female relative is able or willing to assume charge of the child or children.

Deduction in Respect of Widowed Mother taking Charge of Brother or Sister.—(1) A bachelor or an unmarried woman, living with his or her widowed mother, or (2) a mother living apart from her husband, or (3) any female relative having charge and care of a brother or sister, is entitled to a deduction of £45 from his or her assessable income if the claimant supports his or her mother or female relative. The allowance will not be granted if any other person is receiving any deduction in respect of the mother, brother or sister.

Deduction in Respect of Children.—A taxpayer is entitled to an allowance from his assessable income of £36 for the first child, and £27 for each subsequent child falling under one of the following categories:—

(a) Own children and stepchildren who are under sixteen at the commencement of the fiscal year (*i.e.* April 6).

(b) Own children and stepchildren, irrespective of age, who are continuing full-time attendance at a university, college, school, or other educational institution.

(c) Adopted children (excluding illegitimate children, unless the parents were afterwards married), under or over sixteen as above, provided that no other person is entitled to, or claims, an allowance in respect of such child. No deduction is allowed in this section in respect of any child who is entitled, in his or her own right, to an income exceeding £40 per annum. When calculating such income, no account is to be taken of amounts

received from a scholarship, bursary, or similar educational grant.*

Deduction in Respect of Dependent Relatives.—A taxpayer who maintains at his own expense a relative of his, or of his wife, incapacitated from maintaining him- or herself by infirmity or old age, is entitled to a deduction from his assessable income of £25 per annum, provided the relative so maintained does not possess an income exceeding £50 per annum. A like allowance is made in respect of a taxpayer's widowed mother, or widowed mother-in-law, but in these two cases the condition of "incapacity" is waived. If two or more persons contribute to the maintenance of the dependent relatives mentioned above, the allowance granted shall be in proportion to the amount, or the value, of their respective contributions towards the cost of maintenance. The above allowances are also granted to a female taxpayer who supports such dependent relatives.

Commercial Travellers.—Where the employers of a commercial traveller, or person similarly employed, make no allowance for expenses, such person is entitled to an allowance from his assessable income (salary and commission) for reasonable expenses incurred in carrying on his vocation. But ordinary business men, and employers are not entitled to claim in respect of the cost of travelling (season tickets or otherwise) to and from their place of business or employment.

Allowances to Residents Abroad.—None of the allowances detailed above, including the allowance in respect of insurance premiums, is granted to persons residing elsewhere than in the United Kingdom, the Channel Islands, or the Isle of Man, unless the taxpayer satisfies the authorities that he or she is:—

(a) A British subject, or (b) a person who is, or has been, employed in the service of the Crown, or of a Missionary Society, or in the service of any Native State under his Majesty's protection, or (c) residing abroad for the benefit of health, and has previously resided within the U.K., or (d) a widow whose late husband was in the service of the Crown.

In calculating the tax payable by, or repayable to, such person, account must be taken of the claimant's

* Income arising from a scholarship or similar educational endowment held by a person receiving full-time instruction is not assessable for Income Tax or Super-tax.

income (if any) which arises out of the U.K. Although not assessable to United Kingdom income tax, such income must be included in the claimant's income from all sources, and relief will be granted only to the extent of making the tax payable equivalent to the amount which would have been payable if the whole of the income was subject to United Kingdom income tax.

Cessation of Trade or Death.—Certain abatements are allowed where the taxpayer has ceased to follow his trade or occupation, or dies before the end of the year of assessment. In such cases, the assessment will be cancelled, or amended, and such relief "as is just" will be granted, or repayment will be made (*Income Tax Act, 1918, Sch. D, General Rule, 3*).

Rates of Tax Charged on Income.—The student must bear in mind that all the allowances detailed above are *personal*, and do not apply in the case of Companies or Public Bodies. After such of these personal allowances as the taxpayer may be entitled to claim have been deducted from the total assessable income, the rates of tax to be charged upon the remaining taxable income are as follows:—

On the first £225 of income, one-half the standard rate.

On the remaining income, the full standard rate (6s. in the £).

• These rates apply to all individual taxpayers whether married (with or without children) or single. Income Tax on earned income is payable in two equal instalments, viz. on January 1 and July 1 in each year. The tax due from Limited Companies is payable in *one* amount on January 1 in each year. Weekly wage-earners employed upon manual labour are assessed and must pay tax quarterly. Clerks, and those engaged in similar employment are excluded from this rule.

• **Trust Income and Infants' Income.**—Every person who acts as Trustee or Agent and receives income on behalf of other persons is bound, if required, to deliver to the Commissioners full particulars of the income received, and a list of the persons on whose behalf he receives it. A trustee should retain out of any, untaxed income received sufficient money to pay the tax assessable on such untaxed income. When paying over the trust income to a beneficiary, the trustee should give a certificate showing the year in which the income was

received, and a statement to the effect that tax has been, or will be, paid to the authorities on such income. The beneficiary should enter in his tax returns or claims the gross income (*i. e.* the net cash received plus the standard rate of tax) receivable during the year, or, if the amount is uncertain, the amount received for the previous year. Thus if four persons share equally in a trust fund producing a net income of £1,400 per annum, the gross income of each, with tax at 6s. in the £, is £500 ($£1,400 + \frac{2}{3}$ ths of £1,400 = £2,000 ÷ 4), and £500 is the amount each should enter in his Income Tax return or claim.

Where a fund exists, under a Will or Settlement, for the benefit of certain persons—usually infants—the Income of which is not distributable until the beneficiaries attain a certain age, or upon the happening of a certain event—*e.g.* marriage—the Trustees must pay Income Tax at the full rate until the beneficiaries are entitled to the accumulated income. Each beneficiary can then (within three years) claim payment for the whole period of accumulation of any relief to which he would have been entitled had he actually received his share of the income.

If the beneficiary (whether an infant or not) has immediate right to the income as and when it accrues, he can claim annually for any relief to which he may be entitled, either personally, or through his parent or guardian as the case may require.

If the Trustee is entitled to spend out of the Trust income such sums as may be necessary for a minor's maintenance and education, the minor's annual income, until he becomes entitled to the accumulated income, is considered to be the annual sum so spent on him, and interim claims for relief may be put forward annually as though that annual sum was his total income. In this case when the minor becomes entitled to the accumulated income, and repayment of the tax overpaid in previous years is claimed, the amount of relief already given annually is deducted from the accumulated Income Tax which is repayable.

Definition of "Earned" Income.—The *Income Tax Act*, 1918, s. 14, defines earned income as follows:—

(a) Any Income arising in respect of any remuneration from any office or employment of profit held by the individual or in respect of any pension, superannuation, or other allowance, deferred pay or compensation for loss of office given in respect of the past services of the

individual or of the husband or parent of the individual in any office or employment of profit, or given to the individual in respect of the past services of any deceased person, whether the individual, or husband or parent of the individual shall have contributed to such pension, superannuation allowance or deferred pay or not.

(b) Any Income from any property, which is attached to or forms part of the emoluments of any office or employment of profit held by the individual.

(c) Any Income which is charged under Sch. B, or D, or the rules applicable to Sch. D, and is immediately derived by the individual from the carrying on or exercise by him of his profession, trade or vocation, either as an individual or in the case of a partnership as a partner personally acting therein.

In previous years, relief in respect of earned income was granted by charging a lower rate of tax than that charged on unearned incomes. As previously stated, this differentiation is now abolished. A level rate of tax is now imposed on all income, except that 10 per cent., not exceeding a maximum of £200, may be deducted from earned income irrespective of its amount, before arriving at the taxpayer's assessable income. The expression "Investment Income" is now, it would appear, to replace the old designation "unearned income."

All dividends from Limited Companies are regarded as *unearned* Income, and are therefore taxed at the higher rate. This ruling creates hardship in the case of "Private Companies," whose shareholders are practically active partners in a private venture, and *earn* and draw all their profits in the shape of dividends. This hardship has led many Private Companies to distribute their profits largely in the shape of directors' "remuneration" and "commission" in order to avoid the higher rate of tax charged upon dividends as such.

Income of Married Women.—The Income of a married woman living with her husband is, by the Income Tax Acts, deemed to be the husband's Income, and is taxed in his name, and must be entered in his return. If either a husband or a wife applies to the Commissioners, they can be separately assessed as though they were not married, also either of them may make a return of their total combined income. If the Commissioners are not satisfied, they can demand that the other party shall also make a return.

In arriving at the income of the man and wife separately assessed, the total relief and allowances, and the total amount of taxable income on which a reduced rate of tax is charged, may not exceed the amount allowable if there had been no separate assessment.

If both the husband and wife have earned income, the allowances of 10 per cent. (not exceeding £200) in respect of earned income and nine-tenths of the wife's earned income (not exceeding £45) shall be divided between the husband and wife in proportion to their respective earned incomes. The Personal Allowance, and the reduction in the rate of tax, shall be in proportion to their separate assessable incomes. The deductions for Life Assurance Premiums, and maintenance of Children, Dependants, etc., shall be allowed to the party paying the premiums or maintaining the Children, Dependants, etc.

Mode of Assessment. — Persons assessable under Schedules B, D and E receive during the early part of the Government year official forms which they must fill in and return to the assessor for the district. This official does not himself make the assessments; his duty chiefly consists in the collection of the returns, and the prescribed listing of them, and he acts, to an extent, under the supervision of an "Inspector of Taxes." The persons by whom the assessments are made are styled "Commissioners," and two kinds of "Boards of Income Tax Commissioners" exist; first, the "General Commissioners" * (bodies of influential gentlemen, not Income Tax officials, appointed for each district without remuneration); and secondly, the "Special Commissioners" at Somerset House (a special central Board of paid Government officials).

A person making a return for Income Tax purposes may claim, in his return, to be assessed in either of the two following special ways, viz.—

- (1) By the Special Commissioners at Somerset House.
- (2) By the General or Additional Commissioners of the District, not in his own name, but under a number or letter.

* The General Commissioners, when they deem it expedient, can appoint "Additional Commissioners," who make assessments which are confirmed by the General Commissioners.

Either of these methods can be employed by any trader who may not wish to disclose his private affairs to the local assessor or collector of taxes. The adoption of the first method removes the whole matter from local cognizance. Failing request by the taxpayer for a special assessment, he will be assessed in the ordinary way, in his own name, by the District Commissioners of the locality in which he lives or trades. Persons who fail to make a return when required, or who make an untrue return, are liable to a penalty not exceeding £20, and treble duty, or, if the matter is taken to the Law Courts, a penalty of £50.

Appeals.—Where the taxpayer considers that he has been unfairly or incorrectly assessed by the Additional Commissioners, he has the right of appeal either to (a) the District Commissioners, or (b) the Special Commissioners at Somerset House. In practice few appeals, comparatively speaking, reach either of these Boards. Usually the taxpayer obtains professional assistance and settles the matter amicably with the District Inspector of Taxes. When a satisfactory settlement is not attained in this way, and the taxpayer decides to appeal, it may be difficult to decide which is the better tribunal to which to appeal. The District Commissioners, as practical business men, are often more generous and less bound by precedent when dealing with such matters as “wear and tear,” “bad debts,” etc., than the Special Commissioners, who sit in a strictly judicial capacity; but there may be circumstances, indicated above, which make an appeal to the District Commissioners inadvisable. The author’s personal experience is that, when the case is a good one, it is preferable to appeal to the Special Commissioners. Appeals are generally conducted on behalf of the taxpayer by professional accountants, who must be members of a society recognized by law.* A barrister or solicitor may now appear for the appellant (*Income Tax Act*, 1918, s. 137). The taxpayer must give ten days’ notice *in writing* to the Inspector of his intention to appeal.

If, after appeal, the taxpayer thinks that the decision of the Commissioners is erroneous *in point of law* he may, within twenty-one days, require them to state a case for judgment by the High Court. This judgment may be appealed against in the Court of Appeal, and the judg-

* *Income Tax Act*, 1918, s. 137 [3c].

ment of that Court may be reviewed by the House of Lords (*Income Tax Act*, 1918, s. 149). But the decisions of the Commissioners on *questions of fact* are final and conclusive. If, *e. g.*, the Commissioners decide that an allowance for wear and tear of 5% on the value of Plant and Machinery employed by the taxpayer is a fair one, then in no circumstances can there be any appeal against this decision.

On appeal, the taxpayer must produce accounts* to substantiate his contentions, and can be required to verify them by oath, though this is seldom demanded. The Commissioners have power also to question the appellant orally or in writing, and to summon and examine witnesses on oath. It would appear, however, that the taxpayer cannot be compelled to produce his books (*R. v. Chew and Others*). But the refusal to do so would, in most cases, tell adversely against the appeal, and, in the author's opinion, it is always wise to produce the books when called for.

In the course of preparing and settling accounts with the Inspector of Taxes, or in conducting appeals before the Commissioners, there are certain "allowances" and "surcharges" which need detailed consideration. The official list of allowances and disallowances, reproduced on pp. 301-2, needs explanatory comment if the student is not to be misled by the somewhat cryptic phraseology employed in the enumeration.

In the Income Tax appeal case—*Gresham Life Assurance Society v. Styles*—Lord Herschel said: "Profits are ascertained by setting against the Income earned the cost of earning it." Again, Lord Halsbury said: "The profit was that which was earned after paying all expenses necessary and incident to the earning of it" (*Ashton Gas Company v. Attorney-General*). These apparently explicit statements make many of the decisions in Income Tax cases as to what taxable profits consist of difficult of comprehension. It must be remembered that, in many cases, some of the charges and provisions which, in commercial circles, it is thought to be not only prudent but essential to make in order to ascertain the true profits, are not recognized in law, or by the Income Tax authorities, and are disallowed. The result is that many taxpayers pay tax upon a sum far larger than the Income

* The Commissioners can demand this information under the powers conferred by s. 139 of the Act of 1918, above.

which they consider themselves entitled to regard as legitimately earned.

Wear and Tear.—There is probably no item in the whole of his assessment which causes the trader more dissatisfaction than the allowances made by the authorities under this heading. So inadequate are these allowances that the large owner and user of machinery and plant is burdened with what amounts to an additional tax.

During the first thirty-six years of the history of Income Tax, no claims for wear and tear were recognized at all, and it was only after strenuous efforts that Parliament was induced to grant concessions upon the present meagre lines (*Inland Revenue Act, 1878, s. 12*). Since that date many efforts have been made to obtain more liberal treatment, but with no very encouraging results, except perhaps that on May 28, 1897, in reply to a memorial by the Associated Chambers of Commerce, the Chancellor of the Exchequer gave instructions that the Surveyors of Taxes were "Not to object to a deduction from the assessable profits of the year of so much of the cost of replacement of obsolete machinery as is represented by the existing value of the machinery replaced." This instruction was a distinct concession, as allowances under this head had hitherto been unobtainable.

The wastage which takes place in the life of certain assets through use, is, in accountancy language, termed "Depreciation." The student often confuses this term with the designation "Wear and Tear," as employed in connection with Income Tax. It must be clearly realized that these two terms are by no means synonymous. The term "Depreciation" includes Wear and Tear, of course, but it covers a much wider field, and embraces the wastage caused by any fall in market values. Such falls may or may not be connected with Wear and Tear. If machinery becomes obsolete and is replaced by new machinery an allowance is made of the difference between the original cost of the replaced machinery, less the Wear and Tear allowed in past years, and what it realized when sold as scrap, or otherwise.

The actual rates of depreciation allowed by the Income Tax authorities are naturally of great interest both to the taxpayer and to the student. But the subject presents great difficulty to a text-book writer, because of the divergent practice in different districts, and even between individual Inspectors. The author has noticed, however,

that the average examinee is not troubled by these divergencies of practice, but is quite ready to affirm, supported as he is by some text-books, that 5% is the utmost rate ever allowed in this connection. It is perhaps true that 5% is the more usual rate of allowance for Wear and Tear, but, in practice, other rates are also frequently allowed. For example, the author has been allowed, on behalf of clients, 5%, 7½%, 8%, 10%, 15%, and 20% under varying circumstances, the highest rate mentioned (20%) being admittedly a special allowance arising out of the war. The Board of Inland Revenue have recently attempted to standardize Wear and Tear allowances in different trades, in respect of various classes of machinery, and it is a growing practice for Trade Associations to open negotiations with the Inland Revenue Authorities with a view to agreeing a reasonable rate of allowance for depreciation in the particular trade represented.

When working an exercise requiring the compilation of an Income Tax return, the examinee will be wise, after arriving at the figure of the average profits, to deduct, as a claim, depreciation at the rate of 5%, explaining thereafter that, in certain circumstances, an appeal for a higher rate might be successful.

The student is aware that the usual method of dealing with the Plant Account in the preparation of a Balance Sheet is as follows—

MACHINERY AND PLANT ACCOUNT

	£	s.	d.	
As per last Balance Sheet .	1,000	0	0	
Additions during the year .	500	0	0	
	1,500	0	0	
<i>Less—</i>				
Depreciation at 10% .	150	0	0	
				£1,350 0 0

The Income Tax practice is, however, to allow, whatever rate of depreciation is conceded, upon the *initial balance* only (*i.e.* £1,000 in the above illustration), no depreciation being allowed on the additions made during the year.

The following Sch. of Rates of Depreciation has been agreed between the Inland Revenue and the representatives of the industries scheduled:—

SCHEDULE OF AGREED RATES OF DEPRECIATION

Industry, &c.	Rate per cent.	Prime Cost or Written-down Value.	Nature of Plant.	Remarks
Electric Light Undertakings.	3	Written-down value	Cables.	
Flax Spinning and Linen	5	"	Plant and machinery.	
" Weaving (Ireland).	7½	Written-down value	Machinery and plant (except accessory plant such as jirns, pinn cages, spools, belting, driving ropes, damask cards, designs, patterns, models, fur- niture and fixtures).	
Flour Milling	5	Written-down value	Engines, boilers and main shafting.	
Gas Undertakings other than those owned by municipal or other public authorities.	7½	"	Other machinery.	
	3	Written-down value	Gas holders.	
	10	"	Motors, cookers and gas fires.	
Motor Omnibusses	20	Written-down value	Motor omnibusses	(a) The rate of 90% is to be re-con- sidered at the expiration of four years commencing with 1916-17. (b) This rate does not apply to com- mercial motor vehicles.
Paper Mills	5	Written-down value	Machinery working day only.	
	7½	"	" " and night.	
Printing	5	Written-down value	Engines, boilers and shafting	
	7½	"	Printing and binding machines.	
	10	"	Type.	
Railway Wagons	5	Written-down value	Railway wagons	(a) The allowance applies to all wagons owned by traders. (b) In the case of railway companies the method adopted is to allow the actual cost of renewals year by year.

With regard to ships *purchased at second-hand* at prices in excess of the written-down value at the date of purchase, the following arrangements have recently been made:—

(a) The allowance is made on the actual cost price of the ship to the owner for the time being without regard to the prime cost to a previous owner.

(b) The rate of depreciation allowable is calculated by reference to the reasonable expectation of the life of the ship at the date of purchase from the previous owner.

The rate of 15% represents 5% for normal wear and tear, and 10% for the additional wear and tear arising from war conditions.

An allowance per mile of track based upon the estimated life of the permanent way.

Steamships
Sailing vessels.

Prime cost
Prime cost

4
3

Shipping

M

Machinery and plant used in the manufacture of steel.

Written-down value

15

Steel Manufacturers

Engines, boilers, and main shafting.
General saw-milling plant and machinery.
Traction engines, tractors, motor-cars, and haulage plant.
Permanent way.

Written-down value
" "
" "
—

5
7½
20
—

Timber Merchants, Saw Millers, and Manufacturers of Timber Goods.
Tramways

Cables.
Cars and other rolling stock.
General plant and machinery, including standards, brackets, and work-shop tools.

Written-down value
" "
"

8
7
6

Cables, Cars and other rolling stock, General plant and machinery, including standards, brackets, and work-shop tools.

No depreciation allowances are made for any shrinkages which may have occurred in the value of Buildings or Land. Such wastage is regarded as loss of capital.

The following provisions, being an amelioration of the previous rules in regard to depreciation allowances, appear in the *Income Tax Act*, 1918:—

1. No deduction for Wear and Tear shall be allowed in any year if the deduction, when added to the deductions allowed on that account to the person by whom the concern is carried on, will make the aggregate amount of the deductions exceed the actual cost to that person of the machinery or plant (including in that actual cost any expenditure in the nature of capital expenditure on the machinery or plant by way of renewal, improvement or reinstatement.)

2. If in any year full effect cannot, by reason of insufficiency of assessable profits, be given to the deduction allowed to be made for that year's Wear and Tear of machinery and plant, the amount not deducted in that year can be carried forward to the next year, and added to that year's similar deduction, and so on in succeeding years.

Concession (2) is an important one, and when bad years are encountered frequently affords welcome relief to the taxpayer. As an illustration of the effect of the provision, consider the following example of an actual case.

ILLUSTRATION:—

The profits of a certain undertaking were as follows—

	£	s.	d.
Assessment as agreed, 1916	1,682	0	0
„ „ 1917	1,720	0	0
Profits as per accounts for 1918	2,410	0	0
Add—			
Various surcharges	750	0	0
	3,160	0	0
Deduct—			
Sch. A assessment	2,650	0	0
		510	0 0
		3,3912	0 0
Average	1,304	0	0
Less—			
Claim for Wear and Tear (allowed on appeal) at 10 per cent. on £18,000	1,800	0	0
Balance of Wear and Tear allowance, not required, to be carried forward to next year	£496	0	0

Ordinary trade repairs are always allowed, provided they do not exceed the usual expenditure under this heading, based upon the average of the past three years.

Replacements.—The taxpayer can, if he so desires, surrender his claim for Wear and Tear, and charge his accounts, in substitution therefor, with any replacements he may have effected during the year. Many Inspectors prefer this method, and indeed advise it, and, in some circumstances, the alternative is beneficial to the taxpayer, especially in those trades where, owing to the nature of the raw materials dealt with (acids, for example), the plant has to undergo extensive replacement at frequent intervals, or *e.g.* in connection with Cinema Theatres where a piano lasts twelve months only!

ILLUSTRATION :—

A business employing gas substituted electricity as a motive power at a cost of some £2,500. An expert valuation was obtained, from which it appeared that it would have cost £1,500 to have replaced the old gas plant with a new plant of the same type. No claim was made for Wear and Tear, and, upon appeal, the author was allowed a sum of £1,200 as representing the cost of replacements, less any value there might be attached to the old plant as "scrap."

Losses of Capital.—Capital losses are not permissible as a charge, even in part, against the profits assessable for Income Tax. It is quite impossible to define, within reasonable limits, the meaning of a "capital loss" from the Income Tax point of view. All that can be said is that, in a large number of cases, the replacement out of profits of the capital so lost would, in commercial circles, be considered a matter of necessity, prior to the division of such profits amongst the partners of a firm, or the shareholders of a Limited Company.

A few examples may perhaps afford the best indication of the line of demarcation adopted by the authorities in discriminating between "Capital losses" and losses chargeable against taxable profits.

(a) A branch factory established by a Company proved unsuccessful, and the loss sustained on the Fixtures, Plant, etc., upon closing such branch was disallowed (as a "Capital loss") as a charge against the Company's profits (*Smith v. Westinghouse Brake Company*).

(b) A steamship Company underwrote a portion of the value of one of their own steamers, placing the balance of

the risk elsewhere. Upon the wreck of the steamer, the risk underwritten by the Company itself was disallowed as a "Capital loss" (*Inland Revenue v. Western Steamship Company*).

(c) A Company upon removing to new works was disallowed the cost of removal of the Stock and Plant to the new premises (*Granite Supply Association v. Kutton*).

(d) A Company, owning nitrate grounds, sought to make provision for the wastage occurring owing to the exhaustion of the nitrate deposits, but the claim was disallowed as a "Capital loss" (*Alianza Company v. Bell*).

(e) A Company, having made an issue of Debentures, charged the expenses of such issue (such as brokerage, printing, advertising, etc.) against profits, but the charge was disallowed (*Texas Land and Mortgage Company v. Holtham*).

Voluntary Subscriptions.—These, even when disbursed solely for trade purposes, are not always allowed (*Rhymney Iron Company v. Fowler*). Subscriptions, or "guarantees," towards a Trade Exhibition have, for instance, been disallowed. It is the practice of most Inspectors, however, to allow such subscriptions as are *bona fide* necessary for trade purposes. Charitable subscriptions, as such, are not allowed as deductions. Contributions to a hospital where the taxpayer's employees and their wives and children are treated are, however, allowed. Annual subscriptions by an Employer of labour to local charities and institutions which may be for the benefit or instruction of his workers are also allowed.

Preliminary Expenses.—The "Preliminary Expenses" incurred upon the formation of a Limited Company are, as the student is aware, usually held in suspense, and are charged in instalments against the profits of several years. No charge of this nature is allowed for Income Tax purposes, the item being regarded as capital expenditure incurred in creating the Company. If, however, the amount charged contains any items such as the cost of the Company's books of account, or the seal of the Company, such items will, as a rule, be allowed.

Annuities.—Annuities payable out of the profits of a business—to the widow of a deceased partner, for example—are not chargeable against the profits for

Income Tax purposes. The tax may, however, be deducted prior to the payment of the annuity, and, in this way, the business would be recouped. This practice furnishes us with yet another example of the underlying principle that all tax is collected *at its source*, whenever possible.

Interest.—Annual Interest is not allowed as a charge against profits no matter how it may arise. Interest on partners' Capital, Interest on Loans and Mortgages, indeed each and every form of interest is surcharged. As in the case of the annuities dealt with above, the right of recoupment of the tax exists in connection with all interest payments, and the practice of the collection of the tax *at its source* is again exemplified. Any agreement for the payment of Interest, Rent, or other similar payment without deduction of tax is void, and any person who refuses to allow a deduction of tax from an annual payment of interest, rent, etc., is liable to forfeit £50.

There would appear to be an exception to this rule in the case of "Short Loans" advanced by Bankers where money is lent to customers for a specified time. As such interest is not "yearly interest," but accrues and is payable as and when the loan becomes repayable, it does not come within the section.

Inspectors of Taxes also make an exception with regard to "Bankers' Interest," recognizing the almost universal practice of Bankers to charge interest on overdrafts, etc., *gross* in the customer's pass book; the taxpayer, having therefore no opportunity of deducting the tax, is allowed to charge such interest against his trading profits for Income Tax purposes, or to recover tax upon such interest, if it has not been deducted from any untaxed income.

On the other hand, when interest is received from Bankers upon deposit accounts, such interest is usually credited *gross*, and must, therefore, be brought into account by the taxpayer. Colonial and Foreign Banks, with branches in this country, sometimes pay such interest *less tax*.

When loans are advanced on mortgage or other security for *fixed periods* by a Bank, the interest upon such loans is charged less tax in the usual way.

The underlying principle of taxing all Income at its source applies, perhaps, with more force to interest than

to any other class of Income, as it is usually more easily traced. The student will note that *all interest on money* is taxable as such, and that it is therefore quite possible for a Company to make a trading loss, and yet to be obliged to pay tax upon the return from any investments held (*Clerical, Medical and General Life Insurance Society v. Carter*; *Revel v. Edinburgh Life Insurance Company*).

In making payments of annual interest the taxpayer is always entitled (Income Tax Act, 1918, *General Rules* 19 and 21) to deduct Income Tax therefrom and is therefore recouped in such cases.

Bad Debts.—Debts known to be “bad,” and actually written off as such on the taxpayer’s books, are allowed as a charge against taxable profits. The student will remember that, in addition to writing off actual bad debts, it is customary to provide a reserve for “Bad and Doubtful Debts” based upon a percentage of the total outstanding debts at the close of the trading period. It is not usual for such a reserve to be allowed in accounts passed for Income Tax purposes. The average examinee is wont to schedule this item as another charge which is never allowed. The author was successful on two occasions in obtaining such an allowance, once on appeal before the District Commissioners, and again from an Inspector of Taxes. The circumstances in these cases may have been somewhat unusual, and the matter is only mentioned here as a further illustration of the unwisdom of dogmatizing upon questions of Income Tax practice.

Bad debts incurred owing to the loss of moneys loaned to the customers of an undertaking in accordance with trade custom (in the case of Breweries, for example) are allowed as a deduction against trading profits. Such losses are not deemed to be losses of capital (*Reid’s Brewery v. Male*).

Speculations.—Profits or losses made in connection with speculations outside the business of the taxpayer may not be brought into account. The rule appears to be that, if the taxpayer does not make speculation a source of income, he escapes the payment of tax upon any profit he may make. It is difficult, however, to obtain any official definition of the liability under this head. One Inspector informed the author that “anything in excess of five or six speculations a year would

be subject to tax."* But professional speculators are liable to tax. For example, a bookmaker who sought to evade tax on the ground that his calling was not a "business," was held liable on the ground that he was at any rate engaged in a "vocation" (*Partridge & Hancox v. Mallandaine*).

Premiums on the Issue of New Shares.—These are held to be a "capital" profit, and are therefore not taxable.

Voluntary Gifts.—These are not liable to tax. If, for example, a father allows his son an Annual Income, such Income is not taxable unless in payment for services rendered. But the father cannot deduct such Voluntary Gifts from his assessment for Income Tax and Super-tax purposes.

Depreciation on Lease.—The annual wastage in the value of a leasehold is held to be a "Capital" loss. Where, therefore, a "premium" has been paid for a lease, the annual instalment of such premium, as charged in the ordinary course against the profits of the year, is disallowed. The taxpayer has, however, the right of claiming, as a deduction, his net assessment under Sch. A for such property. If the property in question is occupied by the owner and is used as a factory, mill, or for other similar purposes, the *full* annual value can be deducted from his trading profits. An allowance of one-sixth of the annual value of business premises situated abroad is made to persons carrying on business in this country.

Income Tax.—This is not allowed as a charge against profits, and must be added to the trading profits when making a return under Sch. D. The tax so paid is not an "expense" incurred in earning the Income, and is officially regarded as that proportion of the ascertained profits which is due to the Crown, and so, from the Inland Revenue point of view, it is an apportionment of profits, and not a charge against them.

Partner's Salaries.—These are not allowed as deductions. It is obvious that, if allowances of this nature were made, abuse of the concession would probably arise. From the point of view of the Crown, therefore, salaries paid to partners are regarded as an appropriation of profits.

After what has been said above, it will, perhaps, be

* The commissioners, on appeal, are the sole judges on questions of fact, as to whether the business of the appellant may be held to embrace the "speculations" which form the subject-matter of the appeal.

almost unnecessary to state that no deductions are allowable for: **Sinking Funds for the Redemption of Debentures** (*Imperial Brazilian Railway*), **Commissions paid for placing Shares** (*Texas Land and Mortgage Company, Ltd.*), **Instalments written off the Life of Patents, Instalments written off the Cost of sinking Pit Shafts** (*Coltness Iron Company*), and **Amounts written off Goodwill**.

Losses by Embezzlement.—These were always formerly disallowed, but the practice has been modified, and if the defalcations arise in the ordinary conduct of the business concerned, such losses are now generally allowed as deductions.

Trade Charges.—In preparing accounts for Income Tax it is always inadvisable to include too many items of expenditure under this heading, as the average Inspector of Taxes always seems to suspect this designation as the hiding-place of questionable items. As far as possible a full analysis of expenditure should be set out.

Dividends.—When deducting Income Tax from interest, dividends, etc., the rate (where there has been a change of tax during the period covered by such interest or dividend) is to be calculated as follows—

A. On Dividends and Interest from Public Funds, Foreign Loans, or Foreign and Colonial Companies, Official Salaries, and Pensions. Interest and Annuities paid by Municipal Corporations or Local Authorities to additions on Rates, *at the rate in force at the date of payment.*

B. Mortgage Interest or other Interest, Ground Rents, Interest on Annuities payable out of Profits, Dividends from Public Companies, *at the rates in force during the period in which they have been accruing.*

(Board of Inland Revenue Order, May 1893.)

Companies deducting tax when paying dividends usually issue a printed form certifying that such tax has been deducted, and stating the amount so deducted.* This procedure is followed in order that the amounts paid may be deducted or reclaimed by the shareholders. Holders of Inscribed Stocks need no such certificates. When making claims for rebate the "counterparts" of the dividend and interest warrants must be produced for the inspection of the Inspector of Taxes.

* See page 439.

PARTNERS

Where two or more persons carry on business in partnership, a return for Income Tax purposes must be made showing, in one sum, the profits of the firm liable for assessment. The precedent partner is responsible for making the return, and must declare therein the full names and addresses of all the partners, together with a statement showing how the profits are apportionable. Failing any request for the adjustment of the assessment, as explained hereafter, a demand for tax upon the full amount of the profits as shown in the return will be made upon the firm. The right of partners to be separately assessed was withdrawn by the *Finance Act*, 1907, s. 30.

Partners, however, are entitled to all the personal allowances and deductions which can be claimed by individual taxpayers. Any allowances or deductions to which the individual partners may be entitled must be set out on a *separate return*, to be made by each partner, giving full details of his income from all sources, including his share of the profits of the firm as shown in the partnership return made by the precedent partner. All allowances and deductions shown to be due under these individual returns will be made from the sum payable by the firm in respect of the joint profits.

EXAMPLE :—

If the net assessable profit of a partnership of two amounts to £630, and profits are shared in the proportion of two-thirds to A and one-third to B, then, assuming that the partners have no other source of income, they can claim to be dealt with as follows :—

	A	B
Share of above assessment	£420	£210
Less 10% allowance on earned income	42	21
	<hr/> 378	<hr/> 189
Less Personal Allowance (if unmarried)	135	135
	<hr/> 243	<hr/> 54
Less Further Allowance if married, without children	90	90
	<hr/> £153	<hr/> £

Apportionment of Tax between Partners.—When the individual partners do not claim Personal Allowances of any kind, the amount paid to the Revenue Authorities

is applicable to all the partners *pro rata* as they share profits. It can therefore be debited in the P. and L. A/c in the ordinary way without injustice to the partners. But any tax so debited must be added back when computing profits for Income Tax purposes. When, however, a partner claims additional allowances not due to the other partner, or partners, or claims total exemption, it is only just that he shall not, through the P. and L. A/c, be charged with more than his share of the firm's Income Tax payment, and it is then necessary to credit that partner with an amount representing the sum to which his share of the profits has been subjected to Income Tax charge in excess of his proper amount.

EXAMPLE:—

The profits of a firm, consisting of two partners, assessable to Income Tax, were £1,000. A's share was £800, and B's, £200. Assuming that both partners were unmarried, that neither had other income, and claimed no additional personal allowances, the firm's assessment would be arrived at as follows:—

	A			B		
	£	s.	d.	£	s.	d.
Share of Profits	800	0	0	200	0	0
Less 10% allowance on earned income	83	0	0	20	0	0
	720	0	0	180	0	0
Less Personal Allowance (if unmarried)	135	0	0	135	0	0
Taxable Income	£585	0	0	£45	0	0
Tax @ 3s. on first £225	=	33	15	0	6	15
Tax @ 6s. on balance	=	108	0	0		
	£141	15	0	£6	15	0

Total Tax payable = £148 10s.

If this amount be charged against the profits divisible between A and B, partner B, taking one-fifth of the profit, would be paying part of A's Income Tax. B must therefore be credited and P. and L. A/c debited with one-fourth of £141 15s. = £35 8s. 9d., less £6 15s. = £28 13s. 9d.

The numerous allowances that can now be claimed, and the two different rates payable on income, whether earned or unearned, makes it advisable not to charge Income Tax to P. and L. A/c, lest the equity of the partnership arrangements should be disturbed. The better way is to charge each partner with the Income Tax payable by him personally. Although a single assess-

ment is made on a firm, the Inspector of Taxes will always give, on application, details of the assessment. It is inadvisable, also, to make reserves out of profits to meet the estimated liability for Income Tax (as some partners do), since, if the individual assessment of the partners is unequal, the balance of the Reserve, if written back to P. and L. A/c, could not fairly be considered as divisible in the proportion in which the partners share profits. Moreover, if the balance of the Account is carried forward in reserve, it would give rise to difficulties in the event of a dissolution.

Specimen Returns.—In preparing returns for Income Tax purposes, it should be remembered that a certain amount of diversity of practice exists among Inspectors, and due allowance for this factor must be made. To this extent, therefore, it is impossible to lay down hard-and-fast rules for the preparation of a form of return that will meet the needs of all cases. With this proviso, two examples are subjoined indicative of the general lines for the construction of such returns.

EXAMPLE I:—

A. B. is a sub-manager employed by a firm of manufacturers. His salary for the years 1917, 1918 and 1919 was £400, £420 and £440 respectively. He possesses £1,000 5 per cent. War Loan (Bonds), and earned in 1917 £14, in 1918 £16, in 1919 £30 respectively by writing articles for a trade journal. His wife possesses £500 Grand Trunk Pacific Railway 3 per cent. Bonds, and £200 Natal Government 3½ per cent. Stock. His life since 1912, has been insured for £1,000 with the Guardian Assurance Company, Ltd., the annual premium amounting to £31 10s. Income Tax has been deducted at 6s. in the £ on unearned income. Prepare A. B.'s return for the year 1920-21.

RETURN:—

4. B.'s Income.—	£	s.	d.
Average Salary 1917, 1918 and 1919	420	0	0
Average Earnings by writing articles	20	0	0
Interest on £1,000, 5 per cent. War Loan (Taxed before receipt)	50	0	0

Wife's Income—

Interest on Grand Trunk Pacific Railway Bonds (£500), (Taxed before receipt)	15	0	0
Interest on Natal Government 3½ per cent. Stock (£200), (Taxed before receipt)	7	0	0

Total Income from all Sources £512 0 0

Claim for Life Insurance—

Capital Sum of £1,000. Date 1912. Premium . £31 10 0

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ASSESSMENT :—		£	s.	d.
Earned Income		440	0	0
Less 10 per cent. allowance		44	0	0
		<hr/>		
Investment Income		396	0	0
		<hr/>		
		72	0	0
		<hr/>		
Personal Allowance (married man)		468	0	0
		<hr/>		
		225	0	0
		<hr/>		
Taxable Income	=	£243	0	0
		<hr/>		
Tax at 3s. on first £225	=	33	15	0
„ „ 6s. „ balance (£18)	=	5	8	0
		<hr/>		
		39	3	0
Less Tax at 3s. (appropriate rate) on Insurance Pre- mium (£31 10s.)		<hr/>		
		4	14	6
		<hr/>		
		34	8	6
Less Tax paid by deduction on Investment Income 6s. on £72		<hr/>		
		21	12	0
		<hr/>		
Net Tax payable	=	£12	16	6

EXAMPLE II :—

A firm's P. and L. A/cs for the three years 1917, 1918, and 1919 show profits respectively of £5,000, £4,300 and £4,100. The firm consists of two partners, X and Y. These profits have been arrived at after charging the P. and L. A/cs with the following items :—

1. Annual interest on partners' capital at 4 per cent. on £10,000, X $\frac{2}{3}$, Y $\frac{1}{3}$.
2. Annual salary to the junior partner of £100.
3. Charitable donations unconnected with the business: 1917, £10; 1918, £15; 1919, £25.
4. Amounts set aside as Reserves for Bad and Doubtful Debts: 1917, £75; 1918, £120; 1919, £200.
5. Income Tax paid under Sch. A: 1917, £300; 1918, £360; 1919, £360.
6. Depreciation of Lease of Premises (Net Sch. A assessment on same, £1,200): 1917, £120; 1918, £125; 1919, £130.
7. Depreciation of Machinery and Plant at 10 per cent.: 1917, £85; 1918, £90; 1919, £100.

The Inspector of Taxes will only allow the following sums for Reserve against Bad and Doubtful Debts in lieu of those set out in item No. 4—

viz. 1917, £50; 1918, £50; 1919, £100.

He also declines to allow more than £80 per annum for depreciation of Machinery and Plant instead of the amounts set out in item No. 7. Neither partner possesses any outside Income. Profits are shared, two-thirds to X, and one-third to Y. Y pays a Life Insurance Premium amounting to £60 per annum on a policy for £1,000, dated 1912.

INCOME TAX

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Prepare accounts showing the amounts upon which the partners are liable for Income Tax for the year 1920 to 1921.

RETURN:—	1917.	1918.	1919.
Profit as per Profit and Loss Accounts .	£5,000	£4,300	£4,100

Add—

Items disallowed:

Interest on Capital	400	400	400
Partner's salary	100	100	100
Charitable donations	10	15	25
Excess Reserve for Bad and Doubtful Debts	25	70	100
Income Tax paid	300	360	330
Depreciation of Lease	120	125	130
Depreciation of Machinery and Plant (see allowance below) .	85	90	100

6,040 5,460 5,315

Deduct—

* Sch. A assessment on premises .	1,200	1,200	1,200
-----------------------------------	-------	-------	-------

Annual Profits as adjusted £4,840 £4,260 £4,115

	£	s.	d.
Profits as above, 1917	4,840	0	0
" " 1918	4,260	0	0
" " 1919	4,115	0	0
	3)13,215	0	0

Average annual profits	4,405	0	0
Less allowance for wear and tear † .	80	0	0

Amount of assessment = £4,325 0 0

Manner in which the Partners are treated:—

	£	s.	d.		£	s.	d.
Amount of Firm's Assessment					4,325	0	0
Less Interest on Capital	400	0	0				
Junior Partner's Salary	100	0	0		500	0	0
					<u>£3,825</u>	0	0

Partner X.	£	s.	d.	Partner Y.	£	s.	d.
Two-thirds of £3,825 . = £2,550	0	0		One-third of £3,825 . . . =	1,275	0	0
Interest on $\frac{2}{3}$ of Capital				Interest on $\frac{1}{3}$ of Capital			
(£6,666 13s. 4d.)	266	13	4	(£3,333 6s. 8d.)	133	6	8
				Salary	100	0	0
	<u>£2,816</u>	13	4		<u>£1,508</u>	6	8

* Note the full Sch. A (£1,440) can be deducted if the premises are solely used as a factory, or an appropriate proportion of the full annual value, if the premises are partly used for business purposes.

† Allowance for wear and tear must be deducted after the average profits have been ascertained (*Cunard SS. Co., Ltd., v. Coulson*).

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ASSESSMENT :—

Providing no individual claims for personal allowances, other than Partner Y's Insurance Premium, are made, the assessment on the firm will be as follows :—

	X. £ s. d.	Y. £ s. d.
Share of Profits	2,816 13 4	1,508 6 8
Less 10 per cent. allowance	200 0 0	150 16 8
	<hr/> 2,616 13 4	<hr/> 1,357 10 0
Less Personal Allowance (un- married)	135 0 0	135 0 0
	<hr/> <u>£2,481 13 4</u>	<hr/> <u>£1,222 10 0</u>
Tax on £225 @ 3s.	33 15 0	33 15 0
„ „ balance (£2,256 13s. 4 <i>d.</i> , and £997 10s. respectively) at 6s.	677 0 0	299 5 0
	<hr/> 710 15 0	<hr/> 333 0 0
Less Tax @ 4s. 6 <i>d.</i> (appropriate rate) on Insurance Premium £60		13 10 0
	<hr/> <u>£710 15 0</u>	<hr/> <u>£319 10 0</u>

Total Tax payable = £1,030 5*s.*

The above illustration affords another example of the unfairness of charging the amount of Income Tax payable to Profit and Loss Account without making the necessary adjustments. If, in the above case, the tax was charged to Profit and Loss Account, Partner Y should be credited (as a one-third Partner) with the difference between one-half of £700 15*s.*, viz. £355 7*s.* 6*d.*, and £319 10*s.* = £34 17*s.* 6*d.*, otherwise he is bearing one-third of £1,030 5*s.*, viz. = £343 15*s.*

INCOME TAX ADJUSTMENT IN A PARTNERSHIP.—A, B and C are partners and divide profits equally. Interest at the rate of 5 per cent. per annum is allowed on partners' capital: A £20,000; B £10,000; C £6,000. The parties are also entitled to draw the following salaries: A £1,000; B £800; and C £400.

The profits assessable to tax are agreed with the Inspector at £10,000. The amount of tax payable must be paid by the firm and will be adjusted as follows—

	Interest on Capital.	Salary.	Share of Profit.	Total Assessment.
A	1,000	1,000	2,000	4,000
B	500	800	2,000	3,300
C	300	400	2,000	2,700
	<hr/> <u>£1,800</u>	<hr/> <u>£2,200</u>	<hr/> <u>£6,000</u>	<hr/> <u>£10,000</u>

EXAMPLE III:—

C. Testout is a married man with two children under 16. His widowed mother lives with him, and has no income. He earns a salary of £1,000 per annum. His life was insured in 1910 for £1,000 at an annual premium of £60. Testout's liability for tax is arrived at as follows:—

	£	s.	d.
Earned Income	1,000	0	0
Less Allowance of 10 per cent.	100	0	0
	<hr/>		
Less Allowance (living with wife)	225	0	0
do. first child	36	0	0
do. second child	27	0	0
do. dependent relative	25	0	0
	<hr/>		
	313	0	0
Amount of taxable income	<hr/>		
	£587	0	0
	<hr/>		
	£	s.	d.
Tax payable, 3s. on first £225	33	15	0
do. 6s. on balance (£362)	108	12	0
	<hr/>		
	142	7	0
Less Allowance for Life Assurance Premium at "appropriate rate," i. e. 3s. in the £ on £60	9	0	0
	<hr/>		
Net Tax payable	£133	7	0

EXAMPLE IV:—

George Dickson has a wife and four children age., respectively 12, 14, 18 and 21. The child of 18 is in full term attendance at a University. Dickson's share of the assessed profits of his firm is £5,000. His income from investments, all taxed at source, is £2,000 gross. His life is insured in British offices, and he pays £600 per annum on policies taken out in 1911, and £200 per annum on a policy taken out in July, 1917.†

Dickson's liability for tax is arrived at as follows:—

	£
Earned Income	5,000
Less 10 per cent. allowance (maximum)	200
	<hr/>
	4,800
Investments	2,000
	<hr/>
	6,800
Less allowance (living with wife)	225
do. (for two children under 16 and one child at University, i. e. £36, £27, £27)	90
	<hr/>
	315
Amount of taxable income	<hr/>
	£6,485

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Income Tax Payable:—

	£	s.	d.
3s. in £ on first £225	33	15	0
6s. in £ (balance) £6,260	1,878	0	0
	1,911	15	0
<i>Less</i> Tax at 6s. on £2,000 "Investments Income" already taxed at source	600	0	0
	1,311	15	0
<i>Less</i> Allowance for Life Assurance Premiums at "ap- propriate rates" :—			
£600 prior to June 22, 1916, at 6s.	180		
£200 after June 22, 1916, at 3s.	30		
	210	0	0
Net Income Tax payable	= £1,101	15	0

George Dickson is also liable for super-tax on his gross income, viz. £6,800.

Losses.—Where a loss on trading has occurred, in place of the profit estimated in the return made under the statutory regulations, the taxpayer may, within six months of the year of assessment, make a claim for repayment of an amount equal to the tax paid on such loss. (*Income Tax Act*, 1918, s. 34). The loss referred to is, of course, a "statutory loss." Upon making a claim under this section the taxpayer must forward (1) a copy of his P. and L. A/c for the year in question, and (2) an official claim form duly filled in, giving particulars of his total income for the fiscal year, with proofs that the duty has been duly paid on each item. When a successful claim has been made under this section the taxpayer is not entitled to bring in the loss when averaging the profits of subsequent years for income tax purposes, thus:—

	£
1917. Profit	2,000
1918. Profit	1,000
1919. Loss £600 (Tax on which was recovered) to be taken as	nil
	3, 3,000
Average	£1,000

The inability to bring in the loss in future averages largely deprives the section of its value, and the privilege is of very little benefit except in cases where losses continue to be made. Losses incurred in one business may be set off against profits made in another, in cases where the taxpayer carries on more than one separate business.

Patent Royalties.—Tax on Patent Royalties must be deducted upon payment, in the same manner in which the Tax upon Interest is deducted. Formerly the owner of the Patent was assessable

Employees.—Employers are under the obligation to make a return of the names and remuneration of all persons in their employ (*Income Tax Act*, 1919, s. 105). This return must include, in addition to salaries, all fees, bonuses, commissions or other emoluments paid to the persons employed, provided such salaries, etc., exceed

£150 in amount. Clerks of Limited Companies are nominally assessed under Sch. E, while clerks in the employment of ordinary firms are assessed under Sch. D. As a matter of practice, however, the former class of clerks are allowed to take advantage of the three years' average permitted under Sch. D. The secretaries and staff officials of Limited Companies are, however, assessed under Sch. E on the actual salaries of the current year of assessment, and the bonus, commission, etc., of the previous year, or average of the three previous years.

Income from Foreign Property.—Any income which is actually received in this country from foreign property or investments is liable to tax. The fact that such income has already paid tax in a British colony does not exempt it from the British tax; but an allowance is made of the amount of Colonial Income Tax up to half the United Kingdom rate of tax (*Finance Act, 1920, s. 27*).

Vouchers relating to Claims.—In cases where claims for repayment of tax are made, such claims must be accompanied by a detailed account of all income received and must be verified by vouchers in the shape of counterpart dividend warrants, etc., showing the deduction of tax. No certificates are required in the case of Government and other stocks inscribed at the Bank of England. In the case of ordinary commercial companies, the counterpart of the dividend warrants must be forwarded (see p. 439). If the counterparts have been lost, or in cases where no other voucher exists, Forms No. 185 or 185A must be filled in and duly signed by the proper persons. In cases where tax has been deducted by Bankers, e.g., the Interest on Foreign Loans, Form 189A is necessary.

EXERCISES.

[NOTE.—The present edition of the Key does not contain revised solutions to these Exercises].

17A.

1. Enumerate the five "schedules" under which Income Tax is payable, and explain the classes of income to which they relate.
2. What is meant by taxing income "at its source"?
3. A market gardener is assessed for Income Tax purposes upon the profits arising out of the land he holds under Sch. B. Can he claim to be assessed in any other way?
4. Explain what is known as "Property Tax"; how is this tax collected "at its source"? What provisions exist for the recoupment of the amount paid by the person paying this tax from the party who should bear it?
5. A person whose income is below £135 a year derives all his income from interest upon investments, from which tax has been deducted prior to payment to him. What remedy has he in this case?
6. What Income Tax allowances are made in respect of life assurance premiums paid by a taxpayer, and within what limits are these allowances granted?

17B.

1. What "Personal Allowances" are granted, in the case of Income Tax assessments, to all taxpayers?
2. In preparing accounts for assessment under Sch. D, enumerate

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five forms of expense, ordinarily charged in the Profit and Loss Account of a business, which the Income Tax surveyor would disallow as a charge against profits for Income Tax purposes.

3. What provisions (if any) exist as regards "differentiation" between earned and unearned income?

4. To what extent, and in what circumstances, can the assessment made upon a person under Sch. A be deducted by him from his profits in preparing a return of the latter for assessment under Sch. D?

5. What rights of appeal are possessed by a taxpayer who deems his assessment to be excessive?

6. Explain the provisions of the Income Tax law as regards the income of a married woman living with her husband

17c.

From the following particulars prepare A. B.'s return for Income Tax purposes for the Government year ending April 5, 1921.

Salary.—1917, £200; 1918, £210; 1919, £220.

Wife's Income.—The interest upon £1,000 5 per cent. War Loan,* and £1,000 Canadian Pacific Railway 4 per cent. Debenture Stock.*

Life Assurance taken out in 1910, on A.B.'s life.—Annual premium, £15 6*s.* 9*d.*

Income from A.B.'s own Investments.—The income from £200 in 6 per cent. £1 preference shares in the Hampton Paper Mills, Ltd.* (paid half-yearly), from 500 £1 ordinary shares in the Southchurch Cycle Co., Ltd. (which latter have paid no dividend for four years), and from £100 Japanese Government 4½ per cent. Sterling Loan* (paid half-yearly).

17d.

From the following particulars prepare the return for assessment under Sch. D of Messrs. Brown, King & Co. for the Government year ending April 5, 1921.

Net Profits as per Profit and Loss Accounts.		
1917.	1918.	1919.
Profit £2,615	Profit £824	Profit £1,112

The following items have been charged as "losses" before arriving at the above profits—

	1917.	1918.	1919.
Partners' Salaries	£200	£250	£250
Interest on Partners' Capital	£500	£550	£550
Income Tax paid	£125	£125	£150
Depreciation of Plant	£100	£150	£150
Improvements of Premises	£50	—	—
Provision for Bad and Doubtful Debts	£200	£50	£60

Note.—(1) The firm owns its own premises, which are assessed for Property Tax under Sch. A at £500 per annum net. (2) The Inspector of taxes is willing to allow £85 per annum for depreciation

* Income Tax at 6*s.* is deducted by the agents effecting payment of the periodical interest or dividends upon these securities.

of plant in lieu of the amount stated above. (3) The Inspector declines to allow any provision for Bad or Doubtful Debts.

Answers.—

17c. A. B.'s total liability for Income Tax, after allowing for his Insurance Premium, is £7 15s. 6d. £31 19s. will be deducted from his investment income. He is therefore entitled to a repayment of the difference.

17d. Assessable profit £2,137 (subject to partners' personal allowances).

SUPER-TAX.

Super-tax was first imposed by the *Finance Act, 1910*, and was originally a charge—in addition to Income Tax—upon *individuals** whose incomes exceeded £5,000, the rate being 6d. in the £ on the sum by which the total income exceeded £3,000. Thus, an income of £5,000 escaped super-tax, but an income of £5,001 was taxed on £2,001. The *Finance Act, 1914*, reduced the limit of exemption from super-tax to £3,000, and charged duty on income in excess of £2,500. The flat rate was abolished, a graduated rate of tax, ranging from 5d. to 1s. 4d., taking its place.

Super-tax is now chargeable (in addition to Income Tax) for the fiscal year 1920–21 on the total income from *all* sources (without any deductions for earned income or other abatements) in excess of £2,000. The scale of duty, which has been substantially increased, is as follows:—

On the first £2,000 of Total Income, nil.

		s.	d.	
„	next £500 (to £2,500)	1	6	in the £.
„	„ £500 („ £3,000)	2	0	„
„	„ £1,000 („ £4,000)	2	6	„
„	„ £1,000 („ £5,000)	3	0	„
„	„ £1,000 („ £6,000)	3	6	„
„	„ £1,000 („ £7,000)	4	0	„
„	„ £1,000 („ £8,000)	4	6	„
„	„ £12,000 („ £20,000)	5	0	„
„	„ £10,000 („ £30,000)	5	6	„
On Income in excess of £30,000		6	0	„

The total Super-tax payable upon Incomes in excess of £2,000 is thus:—

* Super-tax does not apply to Companies, Corporations, etc.

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Total Income.						Duty Payable.	
						£	s.
£2,500	37	10
£3,000	87	10
£4,000	212	10
£5,000	362	10
£6,000	437	10
£7,000	.	.	.	.	.	637	10
£8,000	.	.	.	.	.	862	10
£9,000	.	.	.	.	.	1,112	10
£10,000	} £250 per £1,000	.	.	.	.	1,362	10
£15,000		.	.	.	.	2,612	10
£20,000		.	.	.	.	3,862	10
£25,000		.	.	.	.	5,237	10
£30,000	} £275 per £1,000	.	.	.	.	6,612	10
			

Add £300 per £1,000 for any excess over £30,000.

The taxpayer's statutory income for Income Tax in any one year forms the Statutory Income on which he must pay Super-tax in the following year. All the assessments made on the taxpayer, under any Sch., in 1919-20, and all the income, taxed at source, received by him in that year, make up the amount which he must return for Super-tax assessment in 1920-21. The total amount of dividends, interest, etc., taxed at source, is the *Gross Amount*, *i.e.* the net cash received, plus the full rate of income tax deducted. As previously pointed out, a dividend may be called "free of tax," "so much per share," "free of tax up to 5s." etc., but that does not alter the fact that the shareholder is participating in a distribution of the taxable profits of the Company, and that the amount he receives is the amount *after* the Company has paid, or provided for, Income Tax.

Super-tax is assessed, and charged, by the Special Commissioners for Income Tax, to whom the returns must be made. The Local Commissioners are not concerned with Super-tax.

If a taxpayer dies in the year of assessment, a proportionate part only of his income up to the date of death is charged with Super-tax, notwithstanding the fact that the full income of the previous year was returned in accordance with statutory practice.

Husband and wife may be separately assessed for Super-tax if application is made before July 6 in any year, but the amount of Super-tax payable must not be

less than the amount which would have been payable had no separate assessments been made. The Super-tax payable is divisible between them in proportion to their respective incomes.

Up to April 5, 1920, if a person's income fell to two-thirds, or less, of the statutory amount upon which he was liable to Super-tax, he could postpone payment of the Super-tax upon the difference for one year. This postponement could be extended if his income continued to be so diminished. This concession has, however, been withdrawn in the *Finance Act*, 1920.

..o

EXCESS PROFITS DUTY

This duty is apart from, and in addition to, Income Tax, and was first imposed by Mr. McKenna in 1915 as a special war levy.

To the surprise and consternation of the commercial community the duty has been re-imposed in the *Finance Act*, 1920. It is improbable that candidates for the commercial examinations will be expected to possess intimate acquaintance with this very complicated subject. Candidates for the professional examinations, however, are required to answer questions relating to the duty, and are recommended to read one of the many books devoted solely to the subject. Nothing more than a bare outline of the duty can be attempted in a general text-book.

Nature of Duty.—The duty is applicable to the profits of any trading period ending after August 4, 1914, which exceeded a certain statutory amount, known as the "pre-war standard," *plus* an allowance of £200.* Subject to the many adjustments arising out of the duty, all profits which remain after deducting the pre-war standard, plus £200, are termed *excess profits*. If the accounting period is less than twelve months, the pre-war standard, and the allowance of £200, are reduced proportionately. The duty is payable two months after

* Certain persons are exempt from Excess Profits Duty, viz., Farmers in the U.K.; persons holding offices or employed persons; professional men whose incomes are dependent upon their personal qualifications, and who are engaged in occupations where little capital is required, *e. g.*, Doctors, Accountants, Lawyers, Architects, etc.

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assessment, unless special extension is granted, and is as follows :—

Businesses or Trades which commenced after August 4, 1914 :—

- (a) 50 per cent. of the excess profits for any accounting period ending on or before August 4, 1915.
- (b) 60 per cent. of the excess profits for any accounting period ending after August 4, 1915, and before January 1, 1917.
- (c) 80 per cent. of the excess profits for any accounting period commencing on or after January 1, 1917, and ending before January 1, 1919. Where the accounting period extends over a period during which two rates of duty have been levied the duty is apportioned.
- (d) 40 per cent. of the excess profits for any accounting period commencing on and after January 1, 1919, and ending before January 1, 1920.
- (e) 60 per cent. of the excess profits for an accounting period commencing on or after January 1, 1920.

In cases other than those set out above the following duty is payable :—

- (a) 50 per cent. of the excess profits for an accounting period of one year from the commencement of the first accounting period ending on or after August 4, 1914.
- (b) 60 per cent. of the excess profits for the accounting period commencing at the close of (a) and ending on or before December 31, 1916.
- (c) 80 per cent. of the excess profits accruing after December 31, 1916.
- (d) 40 per cent. of the excess profits accruing after December 31, 1918.
- (e) 60 per cent. of the excess profits accruing after December 31, 1919.

It may be noted here that any amount paid as Excess Profits Duty may be charged against profits in arriving

at the liability for assessment for Income Tax purposes, but not for excess profits purposes.

Pre-war Standard.—There are two principal methods of arriving at the statutory pre-war standard open to the selection of the taxpayer, viz. :—

First Method.—The average of any two of the last three pre-war accounting years. The last pre-war year is held to be that which ended at the last ordinary accounting period prior to August 5, '1914. In all cases profits liable to the duty are to be computed on the same basis as those for the pre-war periods.

Example.—A's financial year ends on June 30 in each year. His profits were as follows :—

	<i>Profit.</i>
Year to June 30, 1912 . .	£5,681
„ „ 1913 . .	6,321
„ „ 1914 . .	3,250

The first accounting period for which excess profits duty becomes payable is that ending on June 30, 1915. When computing his pre-war standard A naturally selects the years 1912 and 1913, the average profit of which was £6,001, this amount *plus* the allowance of £200, or £6,201, forms his pre-war standard and is subject to the duties set out above. If the taxpayer can prove that the average profits of the pre-war years were at least 25 per cent. lower than the average of the three preceding years, owing to trade depression, he may base his pre-war standard upon the average of any four of the six years immediately preceding the war.

In cases where no pre-war accounting period exists, the “pre-war standard” is based on the statutory percentage of interest allowed on the average capital employed during the accounting period as explained below.

Second Method.—If in the case of a limited company or corporate body, it can be proved that the pre-war standard was less than 6 per cent. on the capital employed at the close of the last pre-war accounting period, or was less than 8 per cent.* in the case of a firm or sole trader, the pre-war standard may be taken to be an amount equal to 6 or 7 per cent. per annum (8 per cent. after December 31, 1916), as the case may be, on the capital so employed. Owing to wide discontent with these rates of interest, a special Board of Referees was constituted,

* The percentage was increased from 7 to 8 per cent. for accounting periods ended after December 31, 1916, by the *Finance Act, 1917*.

to whom appeal was allowed, and after hearing evidence, the Referees fixed the following rates:—

Trade or Industry.	Percentages.	
	Companies.	Partnerships.
Aircraft Manufacture	15	16
Cement Manufacture	6½	7½
Cinematograph	11	12
Coal Mining	9	10
Coffee-growing (E. Indies, excluding Indian Empire)	9	10
Coke Manufacture	8	9
Cold Storage Proprietors and Managers	7½	8½
Daily Newspapers	8	9
Electric Supply (London)	7	8
Electric Supply (Provinces)	7½	8½
Electrical Trade	7	8
Electrical Energy Supplies	7½	8½
Ferro-Concrete Shipbuilding	15	16
Hosiery	6	7
Incandescent Gas Mantles, Manufacture	9	10
Magneto Manufacture	11	12
Marine Salvage	15	16
Motor Manufacturers	7	8
Music Hall Proprietors	11	12
Omnibuses	8	9
Omnibuses (London)	8	9
Paint, Colour and Varnish	6	7
Pig Iron, Manufacture of	7	8
Rubber Growers	10	11
Ships	6	7
Steel Manufacture	8	9
Stevedores (Port of London)	6	7
Synthetic Dyes	9	10
Tea and Coffee Dealers, London (Wholesale)	6	7
Tea Growing (Ceylon and India).	8	9
Theatres (West End)	15	16
Theatres (other than West End)	11	12
Tramways (Great Britain and Ireland)	7½	8½
Typewriter Manufacture	9	10
Wrought Iron Manufacture	7	8

Increase or Decrease of Capital.—If the capital employed has been increased since the pre-war accounting period, a deduction from the profits, calculated at the statutory percentage rate on such *increase*, may be made. If, however, the capital has decreased, interest at the statutory percentage rates of 6 and 7 per cent. only on the *decrease* must be added to the profits. Three per cent. was added to the foregoing percentages in respect of accounting periods ending after December 31, 1916, and an extra 2 per cent. (making 11 per cent. and 13 per cent. in

all) in respect of accounting periods after December 31, 1919.

Deficiencies.—Where, as compared with the pre-war standard, there occurs a deficiency, such deficiency, calculated at the same rate per cent. as the duty on an excess for such accounting period would be calculated, may be set off against future accounting periods, if no excesses have been made; and, if duty has been paid, a corresponding repayment of duty may be claimed.

Statutory Definition of Capital.—Capital, other than money, is defined as follows:—

(a) So far as it consists of assets acquired by purchase, the price at which those assets were acquired, subject to any proper deductions for Wear and Tear or replacement or for unpaid purchase money; and

(b) So far as it consists of assets being debts due to the trade or business, the nominal value of those debts subject to any reduction which has been allowed in respect of those debts for Income Tax purposes; and

(c) So far as it consists of any assets which have not been acquired by purchase, the value of the assets at the time when they became assets of the trade or business subject to any proper deductions for Wear and Tear or replacement;

(d) Profits (*i. e.*, Reserves, etc.), accumulated and undistributed prior to the accounting period.

Investments are not to be treated as Capital except in the case of Trust, Insurance, or Investment Companies. Borrowed money and all other trade liabilities are to be deducted from the assets in arriving at the statutory figure of "Capital."

Computation of Profits.—It has already been stated that the profits of periods liable to Excess Profits Duty are to be computed upon the same basis as was employed in the pre-war period. In practice numerous and complicated modifications arise in this connection which can only be dealt with at greater length than is available here. It may, however, be briefly noted that:—

(a) Income from investments is not to be included unless such interest forms the chief income of the undertaking.

(b) Remuneration paid to Directors, or others charged with the management of an undertaking, is not allowed at a higher rate than that paid in the last pre-war year, unless "special circumstances" exist to justify such increase.

- (c) If the Directors or Managers of an undertaking hold a controlling interest, and the statutory percentage rate forms the pre-war standard, the Company may be treated as though it is a private firm and the Directors are the partners. But, then, the remuneration of the Directors will be disallowed.

Pre-war Losses.—Where a percentage standard has been adopted, and the three pre-war trade years resulted in a loss, an allowance is made from the War and Post-war accounting periods of so much of such loss as has been extinguished by the profits of the War and Post-war accounting periods. The same allowance is made to a private trader when his Capital Account is in debit, whether a percentage standard has been adopted or not.

After December 31, 1916, there can be deducted from the pre-war capital of a business, where a percentage standard has been adopted, any lost assets or increased liabilities that have arisen through trading losses in the six pre-war trade years.

Statutory Allowance.—For Accounting Periods ended after December 31, 1916, the following allowance, in addition to the £200 already mentioned, is granted to businesses with Pre-war Standards not exceeding £500 and the profits of which do not exceed £2,000, viz.:—

One-fifth of the amount by which the profits are less than £2,000, with proportionate reduction for less than one year.

If the Pre-war Standard of profits exceeds £500, such excess must be deducted from the foregoing allowance.

For Accounting Periods ending after December 31, 1919, such allowance extends to businesses with Pre-war Standards not exceeding £2,000 and Profits not exceeding £4,000. This allowance is not applicable where "Substituted Standard" has been adopted.

Substituted Standard.—For Accounting Periods ended after December 31, 1919, a sole trader, or partnership, or private company, if the director or directors had a controlling interest (*i.e.* 20 per cent. of the Capital of the Company), may claim the following pre-war standard, in place of a profits standard or percentage standard, viz.:—

The Percentage Standard, plus £500 for each working

partner or director, provided that the total Substituted Standard shall not exceed £750 for each partner or director. If the Substituted Standard is adopted, no deduction can be made from the profits of any amount paid to such partners or directors as remuneration, neither can advantage be taken of the aforementioned increases in the Statutory Allowance. The Widow of any person who had served in the Navy, Army, Air Force, Red Cross Society, etc., and who carried on the same business before the War as the Widow is now carrying on, is also entitled to this Substituted Standard.

Increased Pre-war Standard.—£500 is allowed to persons who have been employed during the War in any of the following capacities:—

1. Navy. 2. Army. 3. Air Force. 4. British Red Cross (abroad). 5. St. John Ambulance Corps (abroad). 6. Other Similar Bodies (abroad). 7. Service of a Naval or Military Character for which payment was made by Parliament.

It would appear that work in a Government Department or Government Munition Factory or similar capacity would entitle a person to this increased allowance.

This provision is applicable to any businesses which were commenced, or recommenced, after such persons had been demobilized or discharged.

CORPORATION PROFITS TAX

This Tax was imposed for the first time in the *Finance Act, 1920*. The duty amounts to 5 per cent. of the profits of every British Limited Company and the British profits of a Foreign Company arising in accounting periods ending after January 1, 1920.

The first £500 of a full year's profits is not chargeable, and the total duty payable shall not exceed 10 per cent. of the balance of the profits after deducting any interest or fixed dividends on Debentures, Debenture Stock, Preference Shares or Permanent Loans, issued before August 4, 1920 (the date of the *Finance Act, 1920*), or if issued after that date only if they replace existing Debentures or Loans. An Accounting Period shall be considered to be the 12 months ending on the date up

to which the accounts of a Company are usually made up. If the accounts have been made up for a greater or lesser period than 12 months, the Commissioners of Inland Revenue shall determine the accounting period, which must not exceed 12 months. The Commissioners have the same right in cases where no accounts have been made up or where there has been a specific alteration in the business of the Company. A Company that was in existence before January 1, 1920, shall be taxed upon the profits in the first accounting period after that date, but the profits shall be apportioned so that 5 per cent. is paid on the profits arising since January 1, 1920, *e.g.* a Company whose year ends on June 30, 1920, would only pay, under the first assessment made upon it for Corporation Profits Tax, upon half its full year's profits.

Exemptions.—From January 1, 1920, to December 31, 1922, the profits of the following Companies are exempt:—

- (a) Any Company carrying on such undertakings as gasworks, waterworks, tramways, railways, etc., which by Act of Parliament is limited as to the amount of dividend that can be paid to its members.
- (b) Building Societies.

Determination of Profits.—The Profits of Companies liable for Corporation Profits Tax are to be determined on the same principles as the profits would be determined for Income Tax under Sch. D, with the following exceptions:—

1. The profits shall be actual profits and not averaged.
2. No deduction shall be made of income from which tax has been deducted except income received in the way of interest and dividends on money invested in another Company which is liable for Corporation Tax.
3. Deduction shall be allowed in respect of interest paid, and of rent or royalties or share of profits distributed to employees under a Profit-sharing scheme, or other payments from which Income Tax is deducted at the source (but not on dividends and similar distributions of profits) except so much of such payments as have been made to persons holding a controlling interest in the

Company. Interest on permanent loans from persons holding a controlling interest is also disallowed.

4. Not more than £1,000 per annum in all can be deducted in respect of the remuneration of any Director, Manager or other person holding a controlling interest.

5. No deduction is allowed on account of the annual value of premises used for the purposes of the Company.

In arriving at the amount of profit assessable for Corporation Profits Tax the following provisions apply:—

1. The amount of Wear and Tear or depreciation or allowances of a Capital nature shall not exceed those which would be allowed for Income Tax or Excess Profits Duty, whichever is the greater.

2. Income Tax and Corporation Profits Tax must not be deducted.

3. Excess Profit Duty or Mineral Right Duty paid or payable in the United Kingdom, or a similar duty payable out of the United Kingdom, can be deducted in arriving at the amount of assessable profit, but Corporation Profits Tax cannot be deducted from the Profits for the purpose of Excess Profit Duty.

4. Mutual Trading Concerns and Friendly Societies carrying on trade are allowed to deduct as an expense any distribution made to customers.

5. Insurance Companies are specially treated as regards profits reserved for policyholders and annuitants, and deductions are allowed in respect of such profits.

6. Repayments of Excess Profits Duty are to be excluded from the profits for the purpose of Corporations Profits Tax.

7. A Company must apportion its profits (or Losses) on unfinished contracts to each accounting period.

8. If one Company owns all the shares (as far as it legally can) of another Company, it can, if desired, treat the two Companies as one, but in this case payments from one Company to another must not be considered in ascertaining whether the parent Company is paying more than 10 per cent. after deducting debenture interest and preference dividends.

The Secretary, or acting secretary, of a British Company, or the agent of a Foreign Company, must make a return of the profits of the Company within two months of receiving a notice from the Commissioners of Inland Revenue, and if no notice is served he must on

his own accord give notice within six months of the Company's liability to Corporation Profits Tax. The tax is payable two months after assessment.

The assessment of the Corporation Profits Tax is in the hands of the same authorities as those dealing with Income Tax and Excess Profits Duty, and the Income Tax rules relating to assessment, collection and appeals apply equally to Corporations Profits Tax.

CHAPTER XVIII

SELF-BALANCING LEDGERS

In the case of a small business a single Ledger frequently suffices to contain all the Ledger accounts necessary for a correct system of Double Entry book-keeping, and this Ledger, coupled with the Cash Book, provides the necessary material for the construction of a Trial Balance in the ordinary way. If this Trial Balance be correctly compiled, and the book-keeping itself has been accurately accomplished, the two sides of the Trial Balance should, as has already been explained, equal one another in amount, *i. e.* they should "agree."

As soon, however, as a business grows in size and the transactions needing record multiply in number, some subdivision of the Ledger becomes necessary; otherwise the volume of the entries which require to be posted will eventually exceed the accommodation available within the limits of a single book.

The usual subdivisions of the Ledger which are most commonly employed in a commercial house of some importance have already been described on page 34.

One or more Bought and Sold Ledgers may be kept, according to the requirements of the particular undertaking; and such separate Bought and Sold Ledgers may be devised so as to contain the personal accounts of creditors and debtors according to a given alphabetical or geographical division, or they may be collocated in any other convenient way.

Whatever the number of Ledgers employed, the balances contained in them, plus the balances of the cash in hand, and at the bank, if marshalled in the form of a Trial Balance, should result in an exact "agreement" between the total debit balances and the total credit balances. To this extent and in this manner only can the accuracy of the Ledgers be proved.

Whether under such circumstances the Ledgers em-

employed be few or many, a single mistake in any one of them will prevent the "agreement" of the Trial Balance prepared from them all, but the Ledger-keepers will, in such an eventuality, have no indication of the nature or the whereabouts of the error. They will only know that a difference exists *somewhere* in the books. In such a case it may become necessary to search through *every* Ledger until the difference is found—a task which is at once disheartening to the Ledger-keepers, because of its magnitude and the uncertainty of any successful result, and wasteful from an employer's point of view, because of the immense amount of labour which is frequently involved.

By means of a system of "**Adjustment Accounts**," which it is the purpose of this present chapter to explain, a mistake occurring in any particular Ledger out of a set of Ledgers can be definitely located as existing in that particular Ledger at the time of preparing the Trial Balance. Under these circumstances, therefore, it is necessary to check only such portion of the work as relates to that particular Ledger in which a "difference" has revealed itself in order to discover where this "difference" exists, and the annoying waste of labour involved in checking and re-checking those Ledgers which have been correctly posted is thereby avoided.

Incidentally, an "Adjustment Account" furnishes useful information as to the total balances appearing in a Ledger (*e.g.* the total amount owing by the Debtors whose accounts are kept in any particular Ledger), and enables the rise and fall in such totals to be periodically compared. ✕

Most of the Ledgers to be found in a modern counting-house, except, perhaps, the "General Ledger," are confined to accounts of a similar nature, *e.g.* the Sold Ledger is usually reserved entirely for the personal accounts of the Debtors of the undertaking, while the Bought Ledger contains nothing except the Creditors' personal accounts, and so on.)

Assuming, for a moment, that a given Debtors Ledger contains nothing except Debtors' accounts and debit balances throughout a specified period, it is possible, by the collection and analysis of certain information, to prepare an account or statement showing at any given date the total debit balances standing in that particular Ledger. Such an account is termed an "**Adjustment Account**."

The manner in which an Adjustment Account can be prepared is indicated in the following explanation—

In the case of a Debtors Ledger the transactions recorded will consist of—

1. *Debits* to the Sundry Debtors' accounts for goods sold to them.
2. *Credits* appearing in the Sundry Debtors' accounts for—
 - (a) Cash received.
 - (b) Bills received.
 - (c) Discounts allowed.
 - (d) Returns Inwards.
 - (e) Allowances and other credits (if any).

If, to the total of the Debtors' balances appearing in the Ledger at the commencement of the period under review, there be added the total debit entries for the period (1), and if from this total there be deducted the total of the credit entries for the period (2 (a), (b), (c), (d), (e)), the remainder must necessarily represent the total of the debit balances appearing in the Ledger at the close of the period.

An account or statement prepared upon these lines will be in fact a "total" or summarized account for the Debtors Ledger, containing, in condensed form, every transaction which appears in the Debtors Ledger in detail, and showing a balance which equals the total of the balances of the separate Debtors' personal accounts appearing on the Ledger. In other words, it is a "summary" account for the Debtors Ledger.

Every item posted during the given period to every Debtor's account in the Ledger in detail appears also in the Adjustment Account prepared for that Ledger, as a part of one or other of the totals comprising the account. If, therefore, into an ordinary Debtors Ledger posted in the usual way there be interpolated an Adjustment Account prepared for that particular Ledger, and having its sides reversed (*i.e.* an Adjustment Account in which everything appears on the opposite side to which it appears in the individual Debtors' accounts) the result is that every ordinary entry in the Ledger is compensated for by an entry (in total) in the Adjustment Account. The effect of this compensation is that if a Trial Balance of the Ledger be extracted (including, of course, the balance of the Adjustment Account) both sides of the

Trial Balance must equal one another; the Ledger has thus become "**self-balancing**." If the Trial Balance of the Ledger in question fails to "agree" it indicates that an error has been made somewhere in that particular Ledger. An Adjustment Account for the purpose of rendering a Creditors Ledger self-balancing can be prepared on precisely identical principles.

The student should be able to understand readily that the insertion, in each of a number of Ledgers, of an Adjustment Account relating to that particular Ledger, is of great convenience in book-keeping. If upon the extraction of a Trial Balance from a Ledger its two sides equal one another, the Ledger may be assumed to have been correctly posted, and the opposite inference naturally arises if disagreement occurs. When Adjustment Accounts are employed it no longer becomes a question of tedious search in order to discover which out of a number of Ledgers contains an error, since the location of the error reveals itself clearly, by the mere fact that the two sides of the Trial Balance of that particular Ledger fail to agree.

An example of an Adjustment Account prepared for a "Sold" Ledger (*i. e.* a Debtors Ledger) is on p. 333. This account is constructed as it would appear in ordinary use. The postings appearing in it on either side consist of totals extracted from the books of original entry, and the starting balance was obtained from the previous Trial Balance of the Debtors Ledger. A detailed explanation of the manner in which the account is prepared and its constituent elements arrived at may more conveniently be postponed until the principles involved have been completely set forth. ✕

If an Adjustment Account be interpolated in a Debtors Ledger in the manner already shown, solely for the purpose of facilitating the balancing of that particular Ledger, the book-keeping, which, without such Adjustment Account, was book-keeping by "double entry," would be more correctly described as having assumed the shape of the "triple entry" variety, if such a term can be permitted. In other words, every transaction would appear once on the debit (or credit) side of the Debtors Ledger, and once on the opposite side in some other Ledger in the ordinary manner, and once again (included with numerous other items in a total) in the Adjustment Account. The obvious advantage of rendering the Debtors

Ledger "self-balancing" would have been gained by inserting an Adjustment Account in it; but there would not have been provided, anywhere in the system of book-keeping, compensating contra entries for the postings appearing in the Adjustment Account. The result of this condition of things would be that the "agreement" of the combined Trial Balance of all the Ledgers would have been destroyed.

Specimen Adjustment Account kept in Sold (Debtors) Ledger—

GENERAL LEDGER ADJUSTMENT ACCOUNT							
Dr.		for the year ended June 30, 1909				Cr.	
1909.		£	s. d.	1909.		£	s. d.
June 30	To Total Cash received from Debtors for the half-year.....	35,716	0 10	Jan. 1	By Total Debtors' Balances at this date.....	10,932	14 6
" 30	" Total Discounts allowed to Debtors for the half-year...	194	16 8	June 30	" Sales for the half-year.....	65,021	17 9
" 30	" Total Goods returned by Debtors during the half-year...	862	7 11				
" 30	" Total Bills Receivable received from Debtors during the half-year..	16,295	3 6				
" 30	" Balance carried forward, being Total Debtors' Balances at the close of the half-year.....	23,386	3 4				
		£ 75,954	12 8			£ 75,954	12 8
				1909.			
				July 1	By Balance brought forward.....	23,386	3 4

It is eminently desirable that, even in the construction of Adjustment Accounts, the cardinal principle of double entry, viz. that every debit entry requires to be compensated by a credit entry, shall be rigidly adhered to. In order to carry this principle into effect it becomes necessary therefore to open in one Ledger or other, an account duplicating the postings made in the Adjustment Account, but recording them on opposite sides to those upon which they appear in the Adjustment Account. By opening an account of this nature the "agreement" (i. e. the appear-

ance of equal balances on both sides) of the combined Trial Balance of all the Ledgers is restored, and the book-keeping becomes, so to speak, a "quadruple entry" system. The "contra" Adjustment Account relative to the "Adjustment Account" illustrated above is appended as an illustration.

Specimen "Contra" Adjustment Account for a Debtors Ledger, as kept in the "Private" or "General" Ledger—

DEBTORS LEDGER ADJUSTMENT ACCOUNT

Dr.				Cr.			
1909.		£	s. d.	1909.		£	s. d.
Jan. 1	To Total Debtors' Balances as at this date.....	10,982	14 6	June 30	By Total Cash received from Debtors for the half-year.....	85,716	0 10
June 30	„ Sales for the half-year.....	65,021	17 0	„ 30	„ Total Discounts allowed to Debtors for the half-year...	194	16 8
				„ 30	„ Total Goods returned by Debtors during the half-year...	362	7 11
				„ 30	„ Total Bills Receivable received from Debtors during the half-year...	16,295	3 6
				„ 30	„ Balance carried down, being Total Debtors' Balances at the close of the half-year.....	23,386	3 4
		£	75,954 12 8			£	75,954 12 8
1900.							
July 1	To Balance brought forward	23,386	3 4				

NOTE.—This account should be read in conjunction with the Adjustment Account on p. 333, of which it is, in all respects, the converse.

This second Adjustment Account, which may, perhaps, for the sake of convenience, be termed the "contra" Adjustment Account, is usually inserted in the "Nominal," "General," or "Private" Ledger (whichever term is used to designate the Ledger containing accounts other than those of Debtors and Creditors), and its inclusion therein has other notable uses beyond the useful effect of causing the combined Trial Balance of all the Ledgers to agree.

The Adjustment Account first referred to in connec-

tion with the Debtors Ledger (viz. that which is inserted at the end of the Debtors Ledger in the form of a summary of the Debtors Ledger with the sides reversed) has the effect of causing the Trial Balance of the Debtors Ledger to agree exactly, and it derives this property from the fact that its balance exactly equals the total of the Debtors balances outstanding at the date of balancing. It shows this balance however on the wrong side of the Ledger for a Debtors' account from the book-keeper's point of view, *i.e.* on the credit side.

The "contra" Adjustment Account in the "Private" or "General" Ledger, however, contains the same total as the Adjustment Account in the Debtors Ledger, but the balance of the former account appears on the opposite side to that upon which the balance of the latter shows itself, viz. the debit side. The balance of the "contra" Adjustment Account in the "Private" or "General" Ledger thus shows in one total the combined balance of the Debtors' accounts appearing in the Debtors Ledger, and it reveals this balance as a debit one. In other words, the "contra" Adjustment Account in the "General Ledger" shows at any time the total owing to the firm by the various Debtors whose accounts appear in the particular Ledger to which the Adjustment Account relates, and it shows this balance on the correct side for a Debtors' account from a book-keeper's point of view, *i.e.* on the debit side.

If similar "contra" Adjustment Accounts are created in the General Ledger for all the Debtors Ledgers, and also for all the Creditors Ledgers (for, needless to say, Adjustment Accounts can be designed for any type of Ledger upon similar principles to those previously explained as applicable to Debtors Ledgers), and, in addition, for all other Ledgers of whatsoever kind they may be, the result is that the General Ledger contains, in a condensed form, a statement of the whole of the firm's financial position, and permits a Trial Balance to be easily and expeditiously made without the necessity of laboriously extracting the individual balances of all the Debtors' and Creditors' personal accounts.

The General Ledger also becomes self-balancing, subject to the inclusion of the Cash Book balance, *i.e.* a Trial balance of the General Ledger should, if the Cash balance be brought into account, show debit and credit totals which equal one another.

The value and convenience of these facilities is obviously very great in the case of businesses where the Debtors and Creditors Ledgers are numerous and contain much detail, and where, but for this system of Adjustment Accounts, any preparation of financial statements would have to be postponed until the combined Trial Balance of all the Ledgers had been made to agree.

In actual practice an Adjustment Account, as kept in a Debtors Ledger, is not styled the Adjustment Account for that Ledger, but is styled the Adjustment Account for the Ledger in which the "contra" Adjustment Account appears. An Adjustment Account kept in a Debtors Ledger, and corresponding to a "contra" Adjustment Account in the General Ledger, will thus usually be called the "General Ledger Adjustment Account"; upon similar principles the relative "contra" Adjustment Account, as kept in the General Ledger, would usually be called the "Debtors Ledger Adjustment Account," or the "Sold Ledger Adjustment Account," as the case might be. ✕

In the foregoing remarks it has been assumed that a "Debtors" Ledger contains nothing except "debit" balances; and as an aid to the explanation of the theory of self-balancing Ledgers this assumption is a useful one. In practice, however, the "Debtors" Ledgers occasionally contain a few small credit balances arising out of the fact that goods have been returned, or allowances made, or from other small matters of this nature. (Where items of this kind exist, the relative Adjustment Account in the "Debtors" Ledger and the "contra" Adjustment Account in the "General" Ledger show the *net* balance of the Debtors Ledger, *i. e.* the difference between the total of the Debtors' balances (which will be large) and the total of the few occasional credit balances (which will usually be insignificant).) The fact that a "contra" Adjustment Account kept in the General Ledger for any other Ledger shows a "net" balance for the Ledger to which it relates, must be borne in mind when using the Trial Balance of the General Ledger as an approximate Balance Sheet or statement of the financial position; if the few credit balances appearing in a "Debtors" Ledger, or the few debit balances appearing in a "Creditors" Ledger (for the latter may arise out of circumstances the converse of those enumerated above), amount to a substantial sum, the Trial Balance of the

General Ledger is not a completely satisfactory index to the financial position in all its details.

It has already been mentioned that Adjustment Accounts are prepared for Creditors Ledgers as well as for Debtors Ledgers. An Adjustment Account prepared for use in a Trade Creditors Ledger will usually contain the following items—

First, on the *debit* side of the Adjustment Account in the Creditors Ledger and on the *credit* side of the corresponding “contra” Adjustment Account in the General Ledger—

1. The total Creditors’ balances (or the difference between the total Creditors’ balances and the few debit balances appearing in the Creditors Ledger) at the commencement of the period covered by the Adjustment Account.
2. The total purchases made from Creditors for the period.
- ✓ 3. Any other transactions appearing to the credit of various persons’ accounts in the Creditors Ledger, and any transfers to accounts in other Ledgers.

Second, on the *credit* side of the Adjustment Account in the Creditors Ledger, and on the *debit* side of the corresponding “contra” Adjustment Account in the General Ledger—

1. The total of the payments to Creditors for the given period.
2. The total of the discount allowed by Creditors for the given period.
3. The total of the Bills Payable given to Creditors for the given period.
4. The total of the goods returned to Creditors over the given period.
5. Any other transactions appearing to the debit of various persons’ accounts in the Creditors Ledger, and any transfers to accounts in other Ledgers.

The balance of such Adjustment Account shows the total due to the Creditors at the close of the period under review, or, if there be any debit balances appearing in the Creditors Ledger, the “net balance” of that Ledger.

In the case of an Adjustment Account for a Debtors

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Ledger, amounts written off to the Bad Debts Account at the end of the year require to be passed through the Adjustment Account, in common with all other entries affecting the Ledger.

Forms of an Adjustment Account prepared for insertion in a Creditors Ledger and the relative "contra" Adjustment Account which would appear in the General Ledger are appended.

Adjustment Account as kept in a Creditors (Bought) Ledger—

"GENERAL LEDGER" ADJUSTMENT ACCOUNT							
Dr.						Cr.	
1909.		£	s. d.	1909.		£	s. d.
Jan. 1	To Balance	84,021	15 6	June 30	By Total Returns	1,199	14 6
June 30	" Total Purchases	109,826	15 0	" 30	" Total Cash	157,262	15 9
				" 30	" Total Discount	1,241	18 2
				" 30	" Total Bills Payable	10,050	0 0
				" 30	" Balance carried forward	23,594	7 4
		£ 193,348	10 9			£ 193,348	10 9
1909.							
June 30	To Balance brought down	23,594	7 4				

"Contra" Adjustment Account as kept in the General Ledger—

"CREDITORS" (OR "BOUGHT") LEDGER ADJUSTMENT ACCOUNT							
Dr.						Cr.	
1909.		£	s. d.	1909.		£	s. d.
June 30	To Total Returns	1,199	14 6	Jan. 1	By Balance	84,021	15 9
" 30	" Total Cash	157,262	15 9	June 30	" Total Purchases	109,826	15 0
" 30	" Total Discount	1,241	18 2				
" 30	" Total Bills Payable	10,050	0 0				
" 30	" Balance carried forward	23,594	7 4				
		£ 193,348	10 9			£ 193,348	10 9
				1909.			
				June 30	By Balance brought down	23,594	7 4

The general nature and uses of Adjustment Accounts having thus been outlined, there remains still to be explained the method of their preparation.

Both the Adjustment Account in the Personal Ledger and the corresponding "contra" Adjustment Account in the General Ledger must start with the total balances (or, alternatively, the difference between the total debit balances and the total credit balances) appearing on the Ledger at the commencement of a given period. These details are obtained from the Trial Balance of the Ledger, extracted at the commencement of the period, and the requisite entry is made direct in the Adjustment Account and "contra" Adjustment Account, on one side of the one account, and on the opposite side of the other.

Where there is more than one Bought (Creditors) and one Sold (Debtors) Ledger in use, and Adjustment Accounts are kept for each Ledger, it is desirable to keep separate Purchases Journals and Sales Journals for each Bought and Sold Ledger. The total purchases or sales shown by each separate Purchases and Sales Journal are, of course, posted to the "Purchases" and "Sales" accounts in the ordinary way, and the fact that separate books are kept is useful mainly for the purposes of the Adjustment Accounts. Each Purchases Journal and each Sales Journal contains the purchases and sales relative to its respective Ledger, and these totals are required for insertion in due course in the Adjustment and "contra" Adjustment Accounts.

The total amount of the purchases shown by each separate Purchases Journal is posted to the debit of the Adjustment Account created in the Bought Ledger, and also to the credit of the relative Bought Ledger "contra" Adjustment Account kept in the General Ledger.

The total of the sales as shown by each separate Sales Journal is posted to the credit of the Adjustment Account created in the Sales Ledger, and also to the debit of the relative Sales Ledger "contra" Adjustment Account kept in the General Ledger.

Where no separate Sales and Purchases Journals are kept for the separate Sold and Bought Ledgers, the total of the sales and purchases applicable to each individual Ledger must be obtained by means of analyzed Sales and Purchases Journals, similar in principle to those set forth on pages 59 and 64, analysis columns being included for each separate Ledger, and each transaction being extended into its relative Ledger analysis column. The totals of the purchases and sales shown at the end of a period, applicable to any given Ledger, must be entered

in the Adjustment and "contra" Adjustment Accounts for that Ledger upon the lines previously laid down.

The foregoing explanation has shown how to compile—

1. In the case of a Bought Ledger Adjustment Account, (*a*) the starting balance, (*b*) the total of the purchases for the period (*i. e.* the whole of the *debit* side of the account with the exception of any special items).
2. In the case of a Sold Ledger Adjustment Account, (*a*) the starting balance, (*b*) the total of the sales for the period (*i. e.* the whole of the *credit* side of the account with the exception of any special items).

The other sides of the Adjustment Accounts are made up of—

1. Cash receipts (Sold Ledger) or payments (Bought Ledger).
2. Discounts allowed (Sold Ledger) or received (Bought Ledger).
3. Bills received (Sold Ledger) or accepted (Bought Ledger).
4. Returns Inwards (Sold Ledger) or Outwards (Bought Ledger).
5. Transfers to other Ledgers and special transactions (both Ledgers).

In order to ascertain the total cash transactions (receipts or payments) applicable to the various Ledgers, Analysis Columns, headed with the name of the appropriate Ledger, are inserted in the Cash Book; in these analysis columns all the debit or credit entries relating to the respective Bought or Sold Ledgers are extended as and when they are entered in the Cash Book. These analysis columns form no part of the ordinary Double Entry system, but merely serve to compile the necessary totals for subsequent inclusion in the Adjustment Accounts at the end of the given period. The totals of these analysis columns must be carried forward from page to page until the end of the desired period, and their use is analogous to the employment of the analysis columns suggested above as an alternative method of obtaining the totals of Ledger postings in connection with the Purchases and Sales.

An elementary form of Cash Book including these analysis columns will be found on page 344. This book has been used in an example which has been appended in

order to illustrate the working of Adjustment Accounts generally. The student may be reminded that as many analysis columns will be necessary in the Cash Book as there are Adjustment Accounts to be prepared.

The manner in which the total discounts allowed (or received), the total bills received (or accepted), the total returns inwards (or outwards), and the total of special transactions needed for insertion in Adjustment Accounts kept for Sales (or Purchases) Ledgers are collected, varies to a great extent with the volume of these transactions passing through the Ledger. Where a three-column type of Cash Book is kept, the Cash Discounts allowed or received will be incorporated in the Adjustment Accounts in company with the cash transactions to which they relate, and no special provision for their ascertainment is therefore necessary. In the case of special discounts, recorded probably in the Journal, the circumstances are different, and these items are usually obtained by careful search, either in the Journal or in any other book of original entry in which they may appear. They must be arranged on analysis paper, according to the respective Bought or Sold Ledger to which they relate, and the total of them must be included on the appropriate sides in the Adjustment and "contra" Adjustment Accounts. In order to obtain the totals of Returns (inwards and outwards), and Bills (received or accepted), and other classes of transactions required to be included in the Adjustment Accounts, analysis columns similar to those inserted in the Cash Book, Purchases Book, and Sales Book are usually inserted in the particular book of original entry through which these items pass. As the transactions are entered in these books of original entry immediately upon their occurrence, they are extended into (*i.e.* inserted in) the appropriate analysis column relating to the Ledger into which they are finally posted. These analysis columns are added up in the ordinary way at the end of the period under review, and the totals, representing the totals of those individual classes of transactions applicable to particular Ledgers, are placed in the Adjustment Account as kept in the Ledger in question, and in the corresponding "contra" Adjustment Account as kept in the General Ledger; in the latter they appear on the same side of the account as that upon which the detailed postings in the individual Ledger accounts are shown, and in the former they appear on the opposite side of the account.

Any special or unusual transactions which may appear in the Ledgers, and any transfers as between one Ledger and another, must be brought into the Adjustment Accounts. Transactions of this type are apt to be forgotten in compiling the Adjustment Accounts, and in order to obviate this difficulty a special memorandum book, or "**Transfer Journal**," ruled to suit the special circumstances of the business, is frequently employed.

An elementary example is annexed in which the system of Self-balancing Ledgers is illustrated. In this example only one Bought and one Sold Ledger have been employed in addition to the General Ledger, but the principles involved in the keeping of Adjustment Accounts for any number of Ledgers are, of course, identical.

The classes of transactions shown as passing through the Bought and Sold Ledgers are confined to Cash, Discounts, Purchases, Sales and Returns (inwards and outwards); in actual practice numerous additional classes or types of transaction frequently arise, and require to be duly included in the Adjustment Accounts. In such cases the collection of the requisite totals is almost invariably effected by the employment of analysis columns in the appropriate book of original entry.

The Trial Balance of Henry Brown on January 1, 1909 was as under—

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at the Bank	1,009	4	2			
<i>Debtors—</i>	£	s.	d.			
H. Browning	272	19	6			
J. Jones	184	9	3			
O. Roberts	432	9	5			
			889	18	2	
Freehold Premises	1,000	0	0			
<i>Creditors—</i>						
L. Leon	1,724	16	9			
F. Lucien	392	14	4			
J. Hubert	25	1	2			
				2,142	12	3
Stock on hand	1,094	16	8			
Capital Account—H. Brown				1,851	6	9
	£3,993	19	0	£3,993	19	0

His transactions for the month of January were as follows—

1909.		£	s.	d.
Jan.	1. Drew from the Bank for office cash . . .	15	0	0
"	2. Bought goods of L. Leon (on credit) . . .	105	10	0
"	5. *Sold goods to H. Browning (on credit) . . .	206	15	9
"	10. Paid L. Leon on account (by cheque) . . .	500	0	0
	Being allowed discount . . .	10	0	0
"	10. Paid F. Lucien on account (by cheque) . . .	200	0	0
	Being allowed discount . . .	2	0	0
"	10. Paid J. Hubert (by cheque) . . .	25	1	2
"	12. Bought goods of L. Leon (on credit) . . .	202	14	9
"	13. *Sold goods (on credit) to H. Browning . . .	100	9	6
"	13. *Sold goods to J. Jones . . .	65	4	3
"	13. *Sold goods to M. Weaver . . .	32	17	11
"	14. Received from H. Browning cheque for . . .	400	0	0
	And banked the same.			
"	14. Allowed H. Browning discount . . .	4	0	0
"	15. Received from M. Weaver cheque for . . .	32	17	11
	And banked the same.			
"	16. J. Jones returned as unsuitable certain goods sold to him on the 13th inst.—allowed him full invoice price therefor . . .	25	9	10
"	17. Bought goods from L. Leon (on credit) . . .	500	0	0
"	18. Returned to L. Leon half the goods bought from him on the 17th inst. as "not up to sample" . . .	250	0	0
"	19. Paid by cheque salaries and wages to date . . .	35	0	0
"	19. Paid L. Leon on account (by cheque) . . .	200	0	0
	Being allowed discount . . .	4	0	0
"	22. Bought goods from F. Lucien (on credit) . . .	102	19	6
"	23. Returned to F. Lucien the whole of the goods supplied by him on the 22nd January, goods of a wrong description having been supplied . . .	102	19	6
"	24. Paid from office cash sundry charges on the goods returned to F. Lucien as unsuitable, which charges are to be debited to his account . . .	6	9	2
"	28. *Sold goods to M. Weaver (on credit) . . .	200	9	6
"	30. M. Weaver returned part of the goods sold to him on the 28th inst., invoiced at . . .	10	9	6
"	30. And forwarded his cheque for . . .	100	0	0
	Which was duly banked.			
"	30. Allowed M. Weaver discount . . .	1	0	0
"	31. Paid (by cheque) wages and salaries to date . . .	15	4	6
"	31. Paid from office cash sundry expenses to date . . .	3	8	4

The foregoing transactions are to be entered in Henry Brown's Ledgers, consisting of a General Ledger, a Bought Ledger and a Sold Ledger. The Bought and Sold Ledgers are to be made self-balancing.

At the close of the period covered by the transactions, separate Trial Balances of each of the Ledgers are to be prepared. Trading and Profit and Loss Accounts and a Balance Sheet are not required, as the exercise is merely to exemplify the working of the system of self-balancing Ledgers and Adjustment Accounts.

Dr.

CASH BOOK

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[illegible]

* These additional Analysis Columns, though not used in working the present example, are included for the purpose of showing how transactions should be analyzed when more than one "Bought" or "Sold" ledgers are in use.

+ This balance, for Trial Balance purposes, enters as a "General Ledger" balance, the assumption being that the Cash Account is in the "General Ledger."

+ This total, being the total of the Cash Receipts applicable to the Sold Ledger, is posted (1) To the debit of the General Ledger Adjustment Account in the Sold Ledger, (2) To the credit of the Sold Ledger Adjustment Account in the Sold Ledger, and (3) To the credit of the Cash Account in the General Ledger.

§ This total, being the total of the Cash Payments applicable to the Bought Ledger, is posted (1) To the credit of the General Ledger Adjustment Account in the Bought Ledger, (2) To the debit of the Bought Ledger Adjustment Account in the General Ledger.

-----8(N) at the time of the above mentioned document in the General Ledger.

PURCHASES BOOK

1909.			£	s.	d.
Jan. 2	L. Leon.....	B.L. 1	105	10	0
" 12	L. Leon.....	B.L. 1	202	14	9
" 17	L. Leon.....	B.L. 1	500	0	6
" 22	F. Lucien	B.L. 2	102	10	6
		Total *	G.L. 6	£911	4 3

* Posted (1) To the debit of Purchases Account in the General Ledger; (2) To the debit of the General Ledger Adjustment Account in the Bought Ledger; (3) To the credit of the Bought Ledger Adjustment Account in the General Ledger.

SALES BOOK

1909.			£	s.	d.
Jan. 5	H. Browning.....	S.L. 1	206	15	9
" 13	H. Browning	S.L. 1	100	9	6
" 13	J. Jones.....	S.L. 2	65	4	3
" 19	M. Weaver.....	S.L. 4	82	17	11
" 28	M. Weaver.....	S.L. 4	200	9	6
		Total *	G.L. 7	£605	16 11

* Posted (1) To the credit of the Sales Account in the General Ledger; (2) To the credit of the General Ledger Adjustment Account in the Sold Ledger; (3) To the debit of the Sold Ledger Adjustment Account in the General Ledger.

RETURNS INWARDS BOOK

1909.			£	s.	d.
Jan. 16	J. Jones	S.L. 2	25	9	10
" 28	M. Weaver	S.L. 4	10	9	6
		Total *	G.L. 8	£35	10 4

* Posted (1) To the debit of the Returns Inwards Account in the General Ledger; (2) To the debit of the General Ledger Adjustment Account in the Sold Ledger; (3) To the credit of the Sold Ledger Adjustment Account in the General Ledger.

RETURNS OUTWARDS BOOK

1909.			£	s.	d.
Jan. 18	L. Leon	B.L. 1	250	0	0
" 22	F. Lucien	B.L. 2	102	19	6
		Total *	G.L. 9	£352	19 6

* Posted (1) To the credit of the Returns Outwards Account in the General Ledger; (2) To the credit of the General Ledger Adjustment Account in the Bought Ledger; (3) To the debit of the Bought Ledger Adjustment Account in the General Ledger.

GENERAL LEDGER

1		Freehold Premises		1	
Dr.				Cr.	
1909.		£	s.	d.	
Jan. 1	To Balance.....	1,000	0	0	
		£ 1,000	0	0	

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2 Stock Account 2

Dr.						Cr.	
1909.		£	s.	d.			
Jan. 1	To Balance.....		1,094	16	8		
		£	1,094	16	8		

3 H. Brown, Capital Account 3

Dr.						Cr.	
				1909.		£	s.
				Jan. 1	By Balance.....	1,851	6
						£	1,851

4 Salaries and Wages 4

Dr.						Cr.	
1909.		£	s.	d.	1909.	£	s.
Jan. 19	To Bank.....	C.	35	0	0	Jan. 31	By Balance carried down.....
" 31	" Bank.....	C.	15	4	6		✓ 50 4 6
		£	50	4	6		£ 50 4 6
1909.							
Jan. 31	To Balance.....	✓	50	4	6		

5 Discount Account 5

Dr.						Cr.	
1909.		£	s.	d.	1909.	£	s.
Jan. 31	To Discount allowed.....	C.	5	0	0	Jan. 31	By Discount received.....
" 31	" Balance carried down.....	✓	11	0	0		C. 16 0 0
		£	16	0	0		£ 16 0 0
					1909.		
					Jan. 31	By Balance brought down	✓ 11 0 0

6 Purchases Account 6

Dr.						Cr.	
1909.		£	s.	d.			
Jan. 31	To Purchases, as per Purchases Book...	P.	911	4	3		
		£	911	4	3		

7 Sales Account 7

Dr.						Cr.	
				1909.		£	s.
				Jan. 31	By Sales, as per Sales Book.....	S.	605
						£	605

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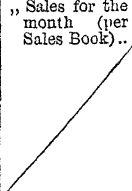
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8		Returns Inwards										8
Dr.												Cr.
1909.				£	s.	d.						
Jan. 31	To Returns, as per Returns Inwards Book	R.I.		85	19	4						
				85	19	4						

9		Returns Outwards										9	
Dr.												Cr.	
							1909.				£	s.	d.
							Jan. 31	By Returns, as per Returns outwards Book	R.O.	352	19	6	
										£	352	19	6

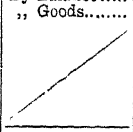
10		General Expenses										10
Dr.												Cr.
1909.				£	s.	d.						
Jan. 31	To Cash.....	C.		3	8	4						
				£	3	8	4					

11		Bought Ledger Adjustment Account										11	
Dr.												Cr.	
1909.				£	s.	d.	1909.			£	s.	d.	
Jan. 31	To Total Cash and Discount for the month (per Analysis Column of the Cash Book) ..	B.L.		917	10	4	Jan. 1	By Total Creditors' Balances at this date...	B.L.	4	2,142	12	3
" 31	" Total Returns Outward for the month (per Returns Outwards Book).	B.L.		352	19	6	" 31	" Total Purchases for the month (as per Purchases Book)	B.L.	4	911	4	3
" 31	" Balance carried forward, being the Total Creditors at this date...	✓		1,753	6	8							
				£	3,053	16	6						
							1909.			£	3,053	16	6
							Jan. 31	By Balance brought down	✓		1,753	6	8

12		Sold Ledger Adjustment Account						12			
Dr.								Cr.			
1900.			£	s.	d.	1909.		£	s.	d.	
Jan. 1	To Total Debtors' Balances at this date	S.L. 5	839	18	2	Jan. 31	By Cash and Discount for the month (per Cash Book Analysis Column)..	S.L. 5	537	17	11
" 31	" Sales for the month (per Sales Book).. 	S.L. 5	605	16	11	" 31	" Returns Inwards for the month (per Returns Inwards Book)	S.L. 5	35	19	4
						" 31	" Balance carried forward (Total Debtors at this date).. ✓		921	17	10
			£	1,495	15	1		£	1,495	15	1
1909.											
Jan. 31	To Balance brought down ✓		921	17	10						

BOUGHT LEDGER

1		L. Leon						1		
Dr.								Cr.		
1909.			£	s.	d.	1909.		£	s.	d.
Jan. 10	To Cash and Discount.....	C.	510	0	0	Jan. 1	By Balance	P.	1,724	16 9
" 18	" Returns	R. O.	250	0	0	" 2	" Goods.....	P.	105	10 0
" 19	" Cash and Discount.....	C.	204	0	0	" 12	" Goods.....	P.	202	14 9
" 31	" Balance carried down	✓	1,569	1	6	" 17	" Goods.....	P.	500	0 0
			£	2,533	1 6				£	2,533 1 6
						1909.				
						Jan 31	By Balance brought down	✓	1,569	1 6

2		F. Lucien						2				
Dr.								Cr.				
1909.		£		s. d.		1909.		£		s. d.		
Jan. 10	To Cash and Discount.....	C.	202	0	0	Jan. 1	By Balance.....	P.	392	14	4	
" 22	" Returns	R.O.	102	19	6	" 22	" Goods.....		102	19	6	
" 24	" Cash charges on goods returned.....	C.	6	9	2							
" 31	" Balance carried down	✓	184	5	2							
		£	495	13	10				£	495	13	10
						1909.						
						Jan. 31	By Balance brought down	✓	184	5	2	

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8 Dr. J. Hubert				Cr. 8			
1909.			£ s. d.	1909.			£ s. d.
Jan. 10	To Cash.	C.	25 1 2	Jan. 1	By Balance.....		25 1 2
			£ 25 1 2				£ 25 1 2

4 Dr. General Ledger Adjustment Account				Cr. 4			
1909.			£ s. d.	1909.			£ s. d.
Jan. 1	To Total Creditors at this date.....	B.L. 11	2,142 12 8	Jan. 31	By Total Cash and Discount for the month (per Analysis Column of Cash Book)..	G.L. 11	947 10 4
" 31	" Total Purchases for the month (per Purchases Book)	G.L. 11	911 4 8	" 31	" Total Returns Outwards for the month (per Returns Outwards Book)	G.L. 11	352 19 6
				" 31	" Balance carried forward, being the Total Creditors at this date.....	✓	1,753 6 8
			£ 3,053 16 6				£ 3,053 16 6
1909.							
Jan. 31	To Balance brought down	✓	1,753 6 8				

SOLD LEDGER

1 Dr. H. Browning				Cr. 1			
1909.			£ s. d.	1909.			£ s. d.
Jan. 1	To Balance		272 19 6	Jan. 16	By Cash and Discount	C.	404 0 0
" 5	" Goods	S.	206 15 9	" 31	" Balance carried down ...	✓	176 4 9
" 13	" Goods	S.	100 9 6				£ 580 4 9
			£ 580 4 9				
1909.							
Jan. 31	To Balance brought down	✓	176 4 9				

2 Dr. S. Jones				Cr. 2			
1909.			£ s. d.	1909.			£ s. d.
Jan. 1	To Balance		184 9 3	Jan. 16	By Returns	R.I.	25 9 10
" 13	" Goods	S.	65 4 3	" 31	" Balance carried down ...	✓	224 3 8
			£ 249 13 6				£ 249 13 6
1909.							
Jan. 31	To Balance brought down	✓	224 3 8				

3

O. Roberts

3

Dr.		Cr.	
1909.		£	s. d.
Jan. 1	To Balance	482	9 5
		£	482 9 5

4

M. Weaver •

4

Dr.						Cr.						
1909.			£	s.	d.	1909.			£	s.	d.	
Jan. 18	To Goods	S.	32	17	11	Jan. 15	By Cash	C.	32	17	11	
" 28	" Goods	S.	200	9	6	" 30	" Returns	R.I.	10	9	6	
						" 30	" Cash and Discount	C.	101	0	0	
						" 31	" Balance carried down ...	✓	89	0	0	
			£	233	7	5			£	233	7	5
1909.												
Jan. 31	To Balance brought down	✓	89	0	0							

5

General Ledger Adjustment Account

5

Dr.				Cr.					
1909.		£	s.	d.	1909.		£	s.	d.
Jan. 31	To Cash and Discount for month (per Analysis Column of Cash Book)	G.L. 12	537	17	11	Jan. 1 By Total Debtors' Balances as at this date	G.L. 12	889	18
" 31	" Returns inwards for month (per Returns inwards Book)	G.L. 12	35	19	4	" 31 " Sales for month (per sales Book)	G.L. 12	605	16
" 31	" Balance carried forward (Total Debtors at this date)	✓	921	17	10				
		£	1,495	15	1		£	1,495	15
					1909.				
					Jan. 31	By Balance brought forward.....	✓	921	17

GENERAL LEDGER

Trial Balance, as at January 31, 1909

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
Freehold Premises	1	1,000	0	0			
Stock (January 1, 1909)	2	1,094	16	8			
H. Brown, Capital Account	3				1,851	6	9
Salaries and Wages	4	50	4	6			
Discount	5				11	0	0
Purchases	6	911	4	3			
Sales	7				605	16	11
Returns Inwards	8	85	10	4			
Returns Outwards	9				352	19	6
General Expenses	10	8	8	4			
Bought Ledger Adjustment Account (Sundry Creditors)	11				1,753	6	8
Sold Ledger Adjustment Account (Sundry Debtors)	12	921	17	10			
Cash at Office	C.B.	5	2	6			
Cash at Bank	C.B.	551	16	5			
		£4,574	9	10	£4,574	9	10

BOUGHT LEDGER

Trial Balance, as at January 31, 1909

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
L. Leon	1				1,569	1	6
F. Lucien	2				184	5	2
General Ledger Adjustment	4	1,753	6	8			
		£1,753	6	8	£1,753	6	8

SOLD LEDGER

Trial Balance, as at January 31, 1909

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
H. Browning	1	176	4	9			
J. Jones	2	224	8	8			
O. Roberts	3	482	9	5			
M. Weaver	4	89	0	0			
General Ledger Adjustment	5				921	17	10
		£921	17	10	£921	17	10

TABULAR OR COLUMNAR BOOK-KEEPING

What is commonly known as the "Tabular" or "Columnar" system of book-keeping is not a distinctive system of accounting, indeed it cannot be designated a "system" in the same sense in which the Double Entry method is so described. The term, in this connection, merely expresses the fact that, in certain cases, books which have been ruled with many analysis columns, in order to adapt them to the special requirements of a particular business, have been substituted for the ordinary forms of Cash Books, Journals and Ledgers commonly employed. The underlying principles of "columnar" book-keeping are those of the Double Entry system, although, in order to minimize labour and concentrate items of a like nature, its customary forms are more or less abbreviated and condensed.

In cases where columnar rulings are employed in Double Entry book-keeping it does not necessarily follow that all the books in ordinary use are of a uniformly "columnar" nature; the insertion of additional columns is purely a matter of convenience and adaptability. An ordinary Cash Book may, in a given case, be used in conjunction with a "columnar" Ledger, a columnar Purchases Journal may work in unison with an ordinary form of Ledger, and so on.

Columnar Journals.—These are Journals or Day Books ruled with a greater or lesser number of additional columns to meet the needs of varying circumstances. Such additional columns may be inserted (*a*) in order to obviate the separate posting to the Ledger of each individual item, and to permit posting in totals, (*b*) to analyze transactions as between departments in order to facilitate the preparation of departmental Trading and Profit and Loss Accounts, (*c*) for the purpose of preparing Adjustment Accounts for individual Ledgers, or (*d*) to provide any additional information which may be desired.

The forms of Purchases Book, Sales Book, Returns Inwards and Outwards Books previously given on pages 59, 64 and 88 are of a columnar nature, and, subject to any additional modifications, are such as can be used in order to fulfil objects (*a*), (*b*) and (*c*) mentioned above. The forms of Bills Payable and Bills Receivable Books illustrated on page 81 are also of a columnar nature, their object being to permit the posting of Bills Payable and

PURCHASES AND EXPENSES JOURNAL

Date.	Invoice Number.	Personal Account.		Cr. Folio.	Total.			Goods Purchased.				Printing and Stationery.		Rent, Rates and Taxes.		General Expenses.		Insurance.	
		Name.	Particulars.		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
1909.																			
July 1	397	Brown, Jones & Co.	Goods, per invoice.....	85	102	16	9	164	12	3									
" 1	398	Borough of West Ham	Rates for half-year ending Dec. 31, 1900..	372	241	12	9				241	12	9						
" 1	399	Morrison & Co.	Printing, per statement rendered	104	32	1	6												
" 1	400	Verity & Co.	Notepaper and office sundries	195	14	2	9												
" 1	401	Michellham, Moses & Co.	Goods, per invoice.....	88	304	11	2	186	11	2									
" 1	402	Aronson & Haviland	Goods, per invoice.....	89	10	4	9												
" 1	403	The Northern Insurance Co., Ltd.	Burglary Insurance	195	2	6	9												
			Carried forward		£387	16	5	£351	8	5*	£246	9	3*	£44	3	0*	£241	12	9*
																	£2	1	3*
																	£2	6	9*

* These totals are here shown as "carried forward" to the next page of the Journal. If, however, there were no further purchases made or expenses incurred during the financial period the totals would be posted respectively to the *debit* of "Purchases," "Printing and Stationery," "Rent, Rates and Taxes," "General Expenses" and "Insurance" accounts in the "Nominal," "Private" or "General" Ledger.

Bills Receivable to the Ledger in *totals*, as well as to furnish all necessary information regarding the bills.

On p. 353 is illustrated a further form of columnar Journal, which provides a classified record not only of purchases (as is the case with an ordinary Purchases Book) but also of expenses incurred. In using this Journal the postings to the credit of the personal accounts are made according to the items inserted against each name in the "total column," and at the end of any given financial period the various purchases and expenses columns are added up, the totals being then posted to the debit of the respective purchases or expense accounts in the Ledger.

Columnar Cash Books.—The form of Cash Book illustrated on page 344 in connection with the preparation of Adjustment Accounts furnishes an example of a Columnar Cash Book. The analysis columns there inserted in order to collect all the items relating to the Sold and Bought Ledgers could be equally well used as columns for the purpose of collecting items of expenditure or income in a classified form. If analysis columns are thus used in a Cash Book in order to collect expenses into totals for posting purposes, each item of expense is extended into its appropriate column in addition to being entered in the ordinary way in the "Cash" or "Bank" columns proper, and, at the close of any given period, the totals of these "expenses" columns are posted to the debit of the various expenditure accounts, thus obviating all tedious posting of details.

Analysis columns can be used on the debit side of a Cash Book for the purpose of collecting income into suitable totals for posting, in the same manner in which expenses are treated.

An example of a Columnar Cash Book is on p. 355, in which analysis columns are included for collecting various items of income and expenditure under appropriate headings for subsequent Ledger posting. In practice a larger number of analysis columns would, in all probability, be inserted on the credit side of the book in order to make the classification of the expenses more exhaustive. The form which is here shown is that designed for a dispensary supported by subscriptions and donations. It will suitably illustrate the main principles involved. ✕

Columnar Ledgers are usually met with, in practice, in connection with personal accounts; they are not

Dr.

COLUMNAR CASH BOOK (Form for use in a Dispensary)

Cr.

Donations.	Subscriptions.	Date.	Details.	Folio or Voucher No.		CASH.	Rank.		Date.	Details.	Folio or Voucher No.		CASH.	Bank.		Drugs.	Salaries and Wages.		Cass. Light, Water, Rates and Taxes.	General Expenses.
				£	s. d.		£	s. d.			£	s. d.		£	s. d.		£	s. d.		
		Jan. 1	To Balance brought forward	5	0 2		102	5 9	Jan. 1	By Brown, Jones & Co.				6	8 9					
		"	" J. Brown	1	1 0		2	20	"	" J. O. Har-				12	10 0					
		"	" H. Jones	2	20		1	10	"	" V. Michael				7	10 0					
0 10 0		"	" M. Morris	1	10				"	" Mid bor-										
0 10 0		"	" O. Roberts	0	10 0				"	" ough Dis-										
0 10 0		"	" R. James				1	11 0	"	trict Coun-										
2 20		"	" S. Smith				5	50	"	cil.....				5	9 2					
		"	" B. Brown				2	20	"	" Mid bor-				1	19 6					
									"	ough Gas										
									"	Co.										
									"	" Mrs. Jones			3	4 1						
									"	(housekeeper)			1	0 0						
									"	" Mrs. Jones						1	0 0			
									"	(wages)										
3 20	10 10 0		Carried forward	7	0 2		114	6 9		Carried forward			4	4 1		6	8 9		7	8 8

NOTE.—In the above example the totals are shown as having been "carried forward"; if there were no further transactions for the period needing record in the books the totals of the "Donations" and "Subscriptions" analysis columns would be posted to the credit of accounts opened under these headings in the "Nominal" Ledger; the total of the "Expenses" column would also be posted to the debit of their appropriate accounts in the "Nominal" Ledger.

generally suitable for the record of nominal accounts, although columnar rulings are employed in the case of some nominal accounts; for example: they will be found in the "Purchases" and "Sales" Accounts given on pages 59 and 64, which are columnar in form.

Where an undertaking is compelled, by the nature of its operations, to keep a large number of personal accounts (usually for debtors or customers) which are identical in form, and contain items of a stereotyped nature, it is possible to employ a Ledger suitably ruled in the columnar method to accord with the nature of the items needing record, and thereby to economize both time and labour. All that is necessary in order that a Ledger shall comply with the principles of Double Entry book-keeping is—

1. That the Debit items shall be grouped by themselves apart from the Credit items.
2. That the total of either class of item shall be visible, and consequently that the "balance" of the account shall be capable of being readily ascertained.

Provided that these requirements are complied with, strict adherence to the ordinary form of Ledger ruling (as given on page 31) is a matter of option and convenience.

In the ordinary form of Ledger account, debit items are ranged underneath one another on one side of the page, and credit items are similarly ranged on the other side of the page. In columnar Ledgers the debit items are frequently ranged side by side on the same line across one part of the page, the credit items being similarly ranged side by side across the other side. It is as easy to add together items ranged horizontally across a page as to add the same items ranged vertically. The making of additions horizontally is termed "cross casting," as opposed to the term "casting," which is used to designate additions made perpendicularly in the ordinary way.

When Ledger accounts can be kept on a single line across a page it will be obvious that one page can accommodate a number of accounts, and if all the Ledger accounts of a given class consist of the same number of similar items, columns can be ruled perpendicularly to separate the debit from the credit items. Many undertakings supplying commodities of special types to numerous

customers find that their Debtors' Ledger accounts fall within the description given above; for instance, in the case of a Water Company, the only debits in each consumer's account for a given period will be (1) for water supplied, (2) for any arrears brought forward, and (3) for any extra charges, such as those for excess supply or garden-hose supply; similarly, the credits will be for (1) cash received, (2) allowances made, (3) any outstanding balance carried forward.

In such a case a columnar Ledger can be employed to record the customers' accounts for a given period, the account for each consumer occupying one line across the page, the debit items being separated from the credit items. If the width of the book is sufficient the single line containing each personal account can be made to serve for two or more periods, if so desired.

A form of a Water Company's "Consumers Ledger" is given on page 358.

In the above form the account of each consumer occupies a single line, the number of the house occupied being inserted in column 7, instead of the name of the occupier, the latter not always being known to the Water Company.

Column 1 contains the debit balance brought forward from the previous period; columns 3 and 5, with their appropriate folio columns 2 and 4, contain credit postings for cash received on account of these arrears, or for allowances made in respect of them. If arrears are duly collected the total of the items in columns 3 and 5 should equal the balance brought forward in column 1; and, if any items remain uncollected when the next charge for water falls due, the amount in column 1 must be regarded, together with the items in columns 9 and 10 (see below), as falling due in the period under review.

Columns 9 and 10 contain the amounts due for supply during the period to which the account specially relates; their total is extended into column 11, and this column (coupled with any unpaid arrears in column 1) shows the total amount due from the consumer.

All cash received from the consumer is inserted in column 13, and is posted from the Cash Book; any allowances made are inserted in column 15, the total of these two columns is inserted in column 16, and, by the deduction of this latter total from the total

WATER COMPANY'S CONSUMERS LEDGER

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18										
(Arrears) Balance brought forward, Dec. 31, 1908.	Polio.		Cash received on ac- count of arrears.	Allow- ances made on account of arrears.		Reference Number.	Street and Number.	Rateable Value.	Half- year's Water Rate, due Jan 1, 1909.		Excess Supply and Extras.		Total due.		Polio.		Cash re- ceived.	Polio.		Allow- ances made.		Total Cash and Allow- ances.		Balance brought forward, June 30, 1909.		The whole set of columns (except start- ing balance) can be re- peated here for the second half of 1909.	
£ s. d.	£	s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	
3 9 4	32	3 9 4			109	Laburnum Grove, 1	36	1 16 0	0 3 0	1 19 0	139	1 19 0	32	0 1 0	1 19 0												
1 16 0	37	1 16 0			110	do.	2 37	1 17 0	0 5 0	2 1 0	142	2 1 0	33	0 18 0	1 16 0												
1 16 0	36	1 16 0			111	do.	3 36	1 16 0	0 6 0	2 2 0	142	2 2 0			1 18 0												
					112	do.	4 36	1 16 0		2 2 0	142	2 2 0	33		1 18 0												
					113	do.	5 36	1 16 0		2 2 0	142	2 2 0			1 18 0												
					114	do.	6 36	1 16 0		2 2 0	142	2 2 0			1 18 0												
					115	do.	7 40	2 40 0		2 0 0	0 0	2 0 0			2 0 0												

(Here follow further Accounts, each occupying one line.)

shown as due in column 11 (with any long outstanding arrears in column 1), the balance due from each consumer at the end of the period is obtained for insertion in column 17. This balance forms the starting balance for the next period.

As regards the contra entries for the items inserted in the columns, the cash received is invariably posted from the Cash Book, and the allowances are posted from the Allowances Journal, the "Allowances" Ledger account being debited in the ordinary way.

The totals to be credited to "Water supplied" and "Excess Supply and Extras" accounts in the Ledger can be obtained by adding up columns 9 and 10 perpendicularly.

The whole of the columns should be cast at the end of the page, and all totals should agree, *i.e.* the combined totals of columns 1, 9 and 10 should equal the combined totals of columns 3, 5, 13, 15 and 17; or, alternatively, the combined totals of columns 1 and 11 should equal the combined totals of columns 3, 5, 16 and 17.

Columnar Ledgers of this type can be used with much advantage for undertakings supplying a single homogeneous commodity in bulk or by measure, *e.g.* for Gas or Electricity. Ledgers of this form are also used by Dairies (for milk, butter and eggs supplied), by Bakers (for bread supplied), and by other tradesmen dealing in similar commodities.

The other type of Columnar Ledger commonly met with proceeds upon similar lines, with the exception that the accounts contained therein are ranged vertically instead of horizontally; the detail headings being placed down the page on the extreme left-hand side instead of across it. Addition of the items in each personal account is made vertically instead of horizontally, and the credit items are placed in a section by themselves below the debit items.

This form of Ledger is commonly used by Hotels to record the accounts of their guests, the various items being too numerous to be conveniently ranged *across* the page of any book of ordinary size.

(A form of an Hotel "Visitors Ledger" is on page 360.)

In this form the daily debits to each visitor's account appear in the upper half of the ruling, the cash received and other items finding their due place (together with

Thursday, July 15, 1909

VISITORS LEDGER

(Hotel Visitors Ledger)

Room No. 1 H. Hope		Room No. 2 S. Boor- nian	Room No. 3 B. Quin- ton	Room No. 4 A. Bar- row	Room No. 5 £ s. d.	Room No. 6 £ s. d.	Room No. 7 £ s. d.	Room No. 8 £ s. d.	Room No. 9 £ s. d.	Daily Total. £ s. d.	Folio.
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	
Balance brought forward	1 0 0	1 10 0								2 10 0	Brought forward
Apartment	0 6 0	0 7 0	0 6 0	0 5 0						1 4 0	Apartment
Breakfast	0 1 6	0 2 0	0 2 0	0 1 6						0 7 0	Breakfast
Lunch		0 3 0								0 3 0	Lunch
Tea and Coffee											Tea and Coffee
Dinners	0 4 0	0 4 0								0 8 0	Dinners
Suppers				0 2 6						0 2 6	Suppers
Wine	0 2 0	0 6 0								0 8 0	Wine
Spirits and Liqueurs											Spirits and Liqueurs
Ale, Stout, etc.					0 0 6					0 0 6	Ale, Stout, etc.
Minerals		0 1 0	0 1 0							0 2 0	Minerals
Cigars	0 0 6	0 1 0								0 1 6	Cigars
Newspapers											Newspapers
Postage											Postage
Laundry											Laundry
Carriage											Carriage
Attendance	0 1 0	0 1 0								0 2 0	Attendance
Baths		0 1 6								0 1 6	Baths
Fires											Fires
Sundries											Sundries
Total	1 15 0	2 16 6	0 9 0	0 9 6						5 10 0	Total
Credits.											
Cash received	1 15 0	2 16 6								4 11 6	Cash received
Allowances											Allowances
Ledger account			0 9 0	0 9 6						0 18 6	Ledger account
Balance carried forward											Balance carried forward
Total	1 15 0	2 16 6	0 9 0	0 9 6						5 10 0	Total

Note.—This Ledger is written up daily, a fresh page being used for each day, and the balances being carried forward each night. The "Daily Total" column, at the extreme right, forms a posting medium, from which the necessary postings to the credit of the respective nominal accounts can be effected. The horizontal lines ruled across the "Debits" section are not for the purpose of making intermediate additions; they are merely to act as guides to the eye in posting.

the balance carried forward to the next day) in the lower part of the form. All cash received is posted from the Cash Book, any allowances that may be made are posted from the Allowances Book, and any transfers from this "Visitors Ledger" to an ordinary Customers Ledger pass through the Journal.

This form of book is restricted in use to about thirty "rooms," owing to the available space limits as regards width; in hotels containing more than this number of rooms additional Ledgers must be employed.

The advisability of adopting Tabular Ledgers depends very much upon the requirements and nature of the particular business; much depends also upon the limits of space in respect of the width or depth of the Ledger pages; it will be clear, however, that the system cannot be usefully applied unless the accounts contain items of a uniform nature.

EXERCISES.

18A.

1. Explain briefly the principles and practice of what are known as "Self-Balancing Ledgers."
2. Rule a form of Cash Book suitable for a business wherein a General Ledger, two Bought Ledgers and two Sold Ledgers are in operation, all these Ledgers being self-balancing; and enter therein six specimen transactions.
3. Rule a form of Sales Book to be used in the business mentioned in question 2, entering therein four specimen transactions.

18B.

From the following particulars of a trader's transactions prepare—

1. The "Bought Ledger";
2. The "General Ledger Adjustment Account" kept in the "Bought Ledger"; and
3. The "Bought Ledger Adjustment Account" kept in the "General" Ledger.

Showing the balances on these accounts at the 31st January, 1909.

The Bought (*i. e.* Creditors') Ledger balances as at January 1, 1909, were as follows—

				£	s.	d.
Credit balance—	A. Brown	.	.	100	19	6
"	"	B. Chaff.	.	200	17	6
"	"	C. Dark.	.	562	19	8
"	"	D. Ewart	.	634	12	6

362 BOOK-KEEPING AND ACCOUNTS

The transactions needing record were as under—

	£	s.	d.
1909.			
Jan. 2. Bought of A. Brown goods on credit	325	9	4
„ 3. Paid A. Brown by cheque	300	0	0
Being allowed discount	3	0	0
„ 4. Bought of B. Chaff goods on credit . .	200	17	6
„ 5. Returned to B. Chaff part of the goods bought from him on the 4th inst. invoiced at	15	2	9
Being allowed by him full invoice value.			
„ 6. Paid B. Chaff on account	350	0	0
Being allowed discount	3	10	0
„ 8. Bought from C. Dark goods on credit	400	0	0
„ 9. Accepted C. Dark's draft at three months' date for	800	0	0
„ 9. Paid him by cheque	100	0	0
„ 11. Accepted D. Ewart's draft at six months' date for	300	0	0
„ 16. Bought from D. Ewart goods upon credit	100	0	0
„ 17. Returned to D. Ewart the goods bought on the 16th inst., being allowed full invoice price therefor . .	100	0	0
„ 21. Paid D. Ewart by cheque	200	0	0
„ 22. Paid A. Brown by cheque	100	0	0
„ 28. Bought from A. Brown goods upon credit	321	19	10
„ 31. Accepted A. Brown's draft at three months' date for	200	0	0
„ 31. Bought from D. Ewart goods on credit	162	3	9

18c.

From the following particulars of a trader's transactions, in whose business only one "Sold" Ledger is kept, prepare—

1. The relative "Sold" Ledger Adjustment Account kept in his General Ledger.
2. The relative General Ledger Adjustment Account kept in his "Sold" Ledger, bringing down the balance on each account as at December 31, 1908.

	£	s.	d.
Total customers' debit balances, October 1, 1908	24,621	9	8
Totals of the following transactions for the period, October 1—December 31, 1908—			
(a) Cash received from customers	30,292	14	7
(b) Discounts allowed them	1,216	4	11
(c) Acceptances received from customers . .	5,365	10	0
(d) Goods sold to customers on credit . .	46,219	4	2
(e) Goods returned by customers	324	1	9
(f) Customers' acceptances returned by the Bank dishonoured	300	0	0
(g) Bad debts written off, December 31, 1908	1,214	9	6

(Continued overleaf.)

18c. (*continued.*)

	£	s.	d.
(h) Cash disbursed for carriage paid in advance on account of sundry customers (in cases where the latter defray carriage)	10	2	9
(i) Packing and crates debited to sundry customers (where the latter bear these charges)	15	2	6

18d.

1. Explain the nature and uses of a tabular or columnar Ledger ; illustrate your answer by ruling a form of tabular Ledger either (1) for an Hotel, or (2) for a Water Company, inserting therein twelve specimen transactions.

2. Explain the purposes for which columnar Cash Books and Journals are employed.

3. For what types of businesses are tabular Ledgers (1) suitable and (2) unsuitable?

Answers.—

18b. Balance of the two Adjustment Accounts, January 31, 1909, £538 6s. 10d.

18c. Balance of both accounts, December 31, 1908, £32,752 18s. 4d.

CHAPTER XIX

DEPARTMENTAL ACCOUNTS

IN cases where a commercial undertaking deals in different kinds of commodities, or performs services of varying descriptions for the community, its business is usually subdivided into appropriate departments, *e.g.* a clothier's business may be divided into "Ready-made Clothing," "Hosiery," "Underwear," "Hat" and "Gloves" Departments.

This subdivision for administrative purposes is usually accompanied by a complementary subdivision of the book-keeping in order that the trading results of each department may be separately shown.

Where several departments exist in a business, it will usually be found that one set of Bought Ledgers (Creditors Ledgers) and one set of Sold Ledgers (Debtors Ledgers) are kept to contain all the creditors' and debtors' personal accounts. Each department will very possibly purchase goods from the same creditors; and it is even more usual to find that each department supplies the same customers with goods either simultaneously or upon different dates. It is highly desirable that the whole of the firm's transactions with any particular individual or firm shall be contained in one personal Ledger account, in order that the financial position at any date as regards that particular individual or firm may be readily ascertained, and for this reason the keeping of separate Bought and Sold Ledgers for individual departments is usually inadvisable.

In order, however, to show the trading results achieved by each department separately some suitable subdivision, or analysis of the accounts from which the Trading Account is built up, is necessary. The Stock on hand, Purchases and Sales, in the case of a trading business, and, in addition, the manufacturing wages and the other essential expenses of production in a manufacturing business, all require to be analyzed as between the various departments to which they relate.

Forms of analyzed Purchases, Sales, and Returns Books have already been given (see pages 59, 64, 88), wherein the principle of classification, according to departments, is effected.

As regards the direct expenses of production in a manufacturing business, the principal item, that of "wages," must be analyzed from the wages sheets, in order that the amount applicable to each department may be ascertained. The Wages Account in the Ledger must be ruled with appropriate analysis columns for each department, just as in the case of the Purchases and Sales Accounts already described.

The other direct expenses of production must be analyzed in a similar manner; the various expense accounts in the books must be ruled with analysis columns to contain the expenses chargeable to the Trading Account of each Department, or separate Ledger accounts can be opened for the departments if the subdivisions are not too numerous.

If all the accounts which contribute to the construction of the Trading Account are thus analyzed, it becomes possible to prepare separate Trading Accounts for every department, and consequently to show the gross profit made by each branch of the business.

A Trial Balance is annexed from which a Trading Account has been compiled, showing the gross profits made by each of the two departments ("Plate" and "Cutlery") of which the business consists.

It will be seen from this illustration that the Plate Department has made a gross profit of £6,503 10s. 1*d.*, while the Cutlery Department has made a gross profit of £11,225 15s. 8*d.*

In some businesses the ascertainment of the gross profit on trading made by each department is a sufficient index to the manner in which that department is being conducted, and the process of analyzing the Profit and Loss Account upon similar departmental lines is not resorted to. In the majority of undertakings, however, the accurate apportionment of the net profits as between the various departments of the business is deemed advisable. In cases where it is desired to analyze the Profit and Loss Account in departmental form, it becomes necessary to apportion the various fixed and other working expenses of the business as between its constituent departments.

THE OVERWEAR PLATE & CUTLERY CO., LTD.

TRADING ACCOUNT for the Year ended June 30, 1909

TRADING ACCOUNT for the Year ended June 30, 1909														Gr.								
Dr.																						
		Plate Department.			Cutlery Department.			Total.			Plate Department.			Cutlery Department.			Total.					
		£,	s.,	d.,	£	s.,	d.,	£	s.,	d.,	£	s.,	d.,	£	s.,	d.,	£	s.,	d.,			
1908.																						
July 1	To Stock on hand	1,024	9	6	2,089	15	7	3,064	5	1	35,010	10	6	53,515	15	9	87,528	6	8			
1909.																						
June 30.	" Purchases (<i>Less Returns</i>)	16,971	6	6	10,917	11	9	36,888	18	8	By Sales			2,025			12			9		
" 30	" Manufacturing Wages ...	13,209	3	8	18,320	11	4	31,568	15	0												
" 30	" Manufacturing Charges																					
" 30	(including depreciation																					
" 30	of Plant and Machinery)	2,004	10	3	3,028	14	2	5,123	10	5												
" 30	Gross Profit carried to	6,503	10	1	11,225	15	8	17,729	5	9												
" 30	the Profit and Loss Account																					
		£	30,803	0	0	54,541	8	6	94,844	14	6	£	30,803	0	0	54,541	8	6	94,844	14	6	

PROFIT AND LOSS ACCOUNT for the Year ended June 30, 1909

PROFIT AND LOSS ACCOUNT for the Year ended June 30, 1909											Cr.
Dr.		Plate Department.			Cutlery Department.			Total.			
		£	s.	d.	£	s.	d.	£	s.	d.	
1909.	To Rent, Rates, Taxes, and other Office Expenses ...	1,628	6	11	2,439	10	4	4,065	17	3	
" 30	" Salaries and Travellers' Commission	1,707	18	3	2,563	17	5	4,269	15	8	
" 30	" Discount	237	17	5	356	10	1	594	13	6	
" 30	" Bank Charges and Commission.....	51	17	11	77	16	9	129	14	8	
" 30	" Advertising and Catalogues	53	1	8	79	12	6	132	14	2	
" 30	" Travelling Expenses and Sundries	88	16	2	125	14	3	209	10	5	
" 30	" Net Profit carried down..	2,742	11	9	5,384	8	4	8,327	0	1	
	£	6,503	10	1	11,223	16	8	17,729	5	9	
		By Gross Profit brought from Trading Account									
		June 30			1909.						
		By Balance brought down....									
		June 30			1909.						

while another department, yet in its early stages, is compelled to spend large sums in this direction, but in such cases allowance for any special items of expense must be made prior to the subdivision of the expenditure generally.

Upon the assumption stated above the "Expense" items set out in the Profit and Loss Account are frequently divided as between the departments of the business according to the ratio which the totals of the sales effected by each department bear to the total sales of the whole business; *e.g.* if the sales effected by Department "A" be £20,000 and those by Department "B" be £40,000, the whole of the expenses set forth in the Profit and Loss Account would be divided and charged, as to $33\frac{1}{3}$ per cent. of them, to the separate Profit and Loss Account for Department "A," and as to $66\frac{2}{3}$ per cent. of them to the similar account for Department "B."

This process of the subdivision of expenses is frequently applied to the whole of the expenses of an undertaking, and will, in the majority of cases, give a result which may be regarded as being as fair an apportionment as can be conveniently arrived at. If, however, in any particular case a more reliable method of calculation can be made use of in relation to one or more special types of expenditure (*e.g.* the advertising expenditure previously mentioned), such expenses should of course be dissected separately, and duly charged to the department for which they were incurred; the spreading of the expenses over the departments upon the basis of the totals of the sales can then be applied to such other forms of expense as do not readily lend themselves to individual dissection.

A departmental Profit and Loss Account is annexed, prepared from the Trial Balance previously given as an illustration in this chapter, in which the expenses have been apportioned upon the basis of the total sales.

The organization of Departmental Accounts is a matter wherein differences of practice will be frequently found, due in most cases to the different objects for which the results are required by the proprietors of the business, or to the trading peculiarities of any given business. The foregoing remarks, however, will serve the student as a guide to the main principles involved.

In some cases separate Departmental Ledgers are kept in order to record the whole of the transactions of each

Department, including its Debtors and Creditors, the whole of the book-keeping of each department working up to an Adjustment Account in the Departmental Ledger, and in the General Ledger, each department being conducted as a business apart. This form of organization is, however, not very common, and in many cases would be so laborious that its general adoption is impracticable. ✕

BRANCH ACCOUNTS

The official record of the financial relationships existing between the Head Office of an undertaking and its branch business or businesses, and *vice versa*, is a matter upon which considerable diversity of practice exists, the methods employed naturally varying according to the circumstances of each case. A Branch business may, in some cases, act solely as a depot for the receipt of orders which are executed direct from the Head Office, or it may act merely as a collecting agency, or occupy in other respects a subordinate position; in any of these cases it can hardly be said to trade independently, and its transactions are, in these circumstances, usually embodied periodically in the Head Office books, small sums of petty cash being entrusted to the Branch manager for the purpose of making the necessary disbursements. The only books kept at the Branch in such cases consist of a Petty Cash Book, and possibly one or more statistical registers.

In a more advanced stage of the Branch's history, independent trading may have become established, but the whole of the records may still be kept at the Head Office. In such a case the Branch is, for book-keeping purposes, regarded much in the light of a separate department of the Head Office of the undertaking, and the records kept at the Head Office will be framed upon departmental lines. A separate Branch Ledger is kept at the Head Office in cases of this description, in which all Branch transactions and Ledger Accounts, *e. g.* Purchases, Sales, Stock, Debtors, Expenses, etc., are grouped together, apart from the rest of the book-keeping; an Adjustment Account for this "Branch Ledger" is frequently kept, having its counterpart in the "Branch Ledger Adjustment Account" in the General Ledger; but inasmuch as the whole of the transactions pass through the one set of Head Office books, there can scarcely be said to be any special features in the book-

keeping involved which call for detailed explanation. The characteristics of departmental book-keeping and adjustment accounts have already been explained; and the accounts of a Branch, the whole of whose book-keeping is recorded in the Head Office books, and not at the Branch itself, are merely a form of the one, kept in a separate Ledger, coupled with the interposition of the other.

When, however, a Branch establishes itself in a position of more or less independent trading, albeit the Head Office may still supply it with all its commodities or capital, or assist it in other ways, it usually becomes necessary for the Branch to effect its own book-keeping.

In such case a separate set of books is kept at the Branch upon the Double Entry method in the ordinary way, and, except for the single Ledger account, to be explained later on, entitled "Branch Account," none of the Branch transactions appear in the Head Office books. The Head Office and the Branch will, for book-keeping purposes, regard each other in the light of ordinary debtor and creditor, the current account kept by the Head Office for the Branch in its Ledger being entitled "—— Branch Account," and the current account kept by the Branch in its Ledger for the Head Office being entitled "Head Office Account." All sums or commodities remitted or disbursed by the Head Office to or for the Branch will be debited by the former to the latter (in the "Branch" Account), and credited by the latter to the former (in the "Head Office" account), and *vice versa*; the relation so far, for book-keeping purposes, being exactly as though the Head Office and its Branch were two independent undertakings effecting frequent transactions with each other, instead of being sections of one combined concern. This relation of debtor and creditor as between the Head Office and the Branch is sometimes carried further than mere book-keeping entries. A Head Office will frequently sell and invoice to its Branch the goods wherewith the latter carries on its trading, just as it would do if it were selling them to an outside customer. It will sometimes even hold its Branch bound to remit for these goods just as would be the case with an ordinary customer, except, of course, that there can be no question of actual liability, or of any legal action to enforce it. Many of these ordinary trade customs, as between the Head Office and the Branch, are brought into operation in order to ease the task of finance at the Head Office, and to afford a more efficient check upon the Branch

manager, both as regards his finance and the results of his administration.

In a case proceeding upon the lines just indicated the Head Office concerns itself with its own book-keeping, and, except for the "Branch Account" kept by it, is not cognizant of the Branch book-keeping at all. The Branch similarly manages its own affairs, and has no cognizance of the Head Office book-keeping beyond the entries contained in its own account at the Head Office as complemented by similar entries in its own "Head Office" Ledger account.

At the end of any given trading period the Branch prepares, in its own books, a Profit and Loss Account which will show, in the usual way, a balance either of profit or loss. This balance of profit or loss is transferred from the Profit and Loss Account, not to the credit or debit of a "Capital Account" (for such an account does not exist in the Branch books), but to the credit or debit of the "Head Office" account. The making of this entry is perhaps the one respect in which the Branch books fail to resemble exactly the books of an independent business.

Concurrently the Head Office will, at the end of each trading period, duplicate in its "Branch" account the entry for Profit or Loss made by the Branch Office in the "Head Office Account," debiting the "Branch Account" with any profit made at the Branch, and crediting its own (Head Office) Profit and Loss Account with the like sum, or crediting the Branch Account with any loss the Branch may have sustained and debiting its own (Head Office) Profit and Loss Account. Any profit or loss made at the Branch is thus eliminated from the Branch books, and brought into the Head Office trading results for the period under review.

At the close of a financial period it will be necessary for the Head Office of the concern to prepare a Balance Sheet showing the position of the undertaking as a whole, and incorporating both the Trial Balance prepared by the Head Office from its own books and the separate Trial Balance prepared by the Branch from the set of books kept there.

In the Head Office Trial Balance the Branch will be shown either as a debtor or a creditor for a given balance of account. Inasmuch as every entry originated either by the Head Office or its Branch, and entered in the current account kept between them, is duplicated by the other party to the account on the opposite side of the Ledger, it must follow that for whatever sum the Head Office may

show its Branch as a debtor or creditor in its Trial Balance, for that same sum the Branch must show the Head Office as respectively creditor or debtor in its own Trial Balance; *e.g.* if in the Head Office Trial Balance the "Branch Account" appears as a debtor for £1,500, in the Branch Trial Balance the "Head Office Account" must be shown as a creditor for £1,500.

Owing to the fact that the balances of the current accounts of the Branch and Head Office coincide in this manner it is possible to construct a combined Trial Balance and Balance Sheet of the whole undertaking.

If two "agreed" Trial Balances be taken, one of which includes a certain balance (either debit or credit), while the other includes the same balance on the opposite side to that upon which it appears in the former, it is possible to eliminate this particular balance in either statement, and thereupon to combine the remaining balances in either statement into one "combined" Trial Balance, the sides of which will still agree.

Consequently, if the Trial Balance of a Branch showing the Head Office balance for a certain amount on one side of the Ledger be combined with the Trial Balance of the Head Office books (in which is shown a "Branch Account" balance for the same amount on the opposite side), a consolidated Balance Sheet of the whole concern can be prepared showing the combined position of both the Branch and the Head Office.

This principle is carried out in the example annexed, in which the combined Balance Sheet of an undertaking is prepared from the separate Trial Balances extracted from the Head Office and the Branch books.

THE BRITISH BOOT MANUFACTURING CO., LTD.
LONDON OFFICE TRIAL BALANCE, December 31, 1909

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at Bank.....	3,294	16	2			
Stock of Goods on hand.....	30,761	8	4			
Sundry Debtors.....	32,178	19	2			
Sundry Creditors.....				20,766	12	4
Share Capital, 20,000 Shares of £1 each, fully paid.....				20,000	0	0
Debentures.....				40,000	0	0
Plant and Machinery.....	4,180	12	6			
Patents and Goodwill.....	5,000	0	0			
Leicester Branch Account.....	7,423	1	2			
London Profit and Loss Account (Balance)				2,020	0	0
	£82,786	12	4	£82,786	12	4

THE BRITISH BOOT MANUFACTURING Co., LTD.

LEICESTER BRANCH TRIAL BALANCE,

December 31, 1909

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Stock of Goods on hand.....	3,496	12	9			
Sundry Debtors	3,592	15	7			
Leasehold Premises.....	1,200	0	0			
Cash at Bank.....	351	7	0			
London Office Account				7428	1	2
Leicester Profit and Loss Account (Balance)				1,217	14	2
	£8,640	15	4	£8,640	15	4

THE BRITISH BOOT MANUFACTURING Co., LTD.

BALANCE SHEET, as at December 31, 1909

LIABILITIES.			ASSETS.		
	£	s. d.		£	s. d.
Share Capital—			Goodwill and Patent		
20,000 Shares of £1 each	20,000	0 0	Rights	5,000	0 0
Debentures	40,000	0 0	Plant and Machinery	4,130	12 6
Sundry Creditors.....	20,766	12 4	Leasehold Premises.....	1,200	0 0
Profit and Loss Account—			Stock of Goods on hand—		
London ...£2,020 0 0			London ...£30,761 8 4		
Leicester 1,217 14 2			Leicester.. 3,496 12 0		
	3,237	14 2		34,257	16 1
			Sundry Debtors—		
			London ...£32,176 19 2		
			Leicester.. 3,592 15 7		
				35,769	14 9
			Cash at Bank—		
			London ...£3,294 16 2		
			Leicester... 351 7 0		
				3,646	3 2
	£ 84,004	6 6		£ 84,004	6 6

NOTE.—In a Balance Sheet prepared for publication the details relating to the "London" and "Leicester" Branch balances would not be shown, only the totals given in the principal column being included. The Head Office and Branch totals have been stated separately in the above example for the sake of clearness.

In preparing the combined Balance Sheet of a firm having a Head Office and one or more Branches in the manner illustrated above, it must be borne in mind that no "agreement" of the consolidated Balance Sheet can be effected unless the Head Office and the Branches schedule each other reciprocally as debtors and creditors for like amounts. It sometimes happens that a Head Office will, on the last day of a given financial period, remit money to a Branch, debiting the Branch therewith at the moment of making the remittance; the money may not, however, reach the Branch until the next day, *i. e.* after the books

have been closed. As a consequence of transactions of this nature, it may sometimes happen that a Head Office schedules a Branch in its Trial Balance as a debtor (or creditor) for a greater sum than is acknowledged in the Trial Balance of the Branch.

The amount of the Head Office balance must, in such a case, be made to tally with the Branch balance before any preparation of a combined Balance Sheet is attempted. This can be effected in the Head Office books by transferring any remittances made to the Branch, but not received by the latter until after date of balancing, from the Branch account into a "Remittances in Transit Account"; in this way the Head Office balance will be brought into agreement with the Branch balance, and the elimination of the two equal balances is permissible when preparing a combined statement.

A Branch account and a Head Office account may differ in similar manner owing to remittances in transit, from the former to the latter, at the date of balancing.

Where a concern comprises a Head Office with more than one Branch, elimination of the equal (and opposite) Branch and Head Office accounts, when preparing a combined Balance Sheet of the whole undertaking, is effected in the manner previously described. Again, where inter-Branch accounts exist as well as accounts between the Head Office and Branches, the principle of eliminating Branch, Head Office and inter-Branch accounts (subject to them all having been brought into agreement with one another) applies, and the procedure is identical.

An example of the preparation of a combined Balance Sheet, where remittances in transit at the date of balancing have caused the Branch and Head Office reciprocal balances to differ, is appended.

PLAYER BROS., LONDON AND LINCOLN.

LONDON OFFICE TRIAL BALANCE, December 31, 1908

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at Bank	1,050	16	2			
Sundry Debtors	8,846	9	5			
Stock of Goods	8,241	9	2			
Sundry Creditors				3,848	7	1
Lincoln Branch Account	1,209	12	4			
Partners' Capital Accounts				10,000	0	0
	£13,848	7	1	£13,848	7	1

PLAYER BROS., LONDON AND LINCOLN.

LINCOLN BRANCH TRIAL BALANCE,

December 31, 1908

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at Bank	504	16	2			
Stock of Goods	1,507	12	9			
Sundry Creditors				1,102	16	7
London Office Account				909	12	4
	£2,012	8	11	£2,012	8	11

NOTE.—On December 31 the London office permitted to the Lincoln Branch £100 cash, which did not arrive until January 4, 1909. On December 31, dispatched goods to the Lincoln Branch of the value of £200, which did not arrive until January 4. Both these items were debited by London to Lincoln on the day of dispatch, and were credited by Lincoln to London on the day of arrival.

PLAYER BROS., LONDON AND LINCOLN. —

BALANCE SHEET, as at December 31, 1908

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Partners' Capital	10,000	0	0	Stock of Goods on hand—			
Sundry Creditors				London	£3,241	9	2
London	£1,348	7	1	Lincoln	1,507	12	9
Lincoln	1,192	16	7	In Transit	200	0	0
	4,951	8	8				
				Sundry Debtors			
				Cash in Bank—	4,949	11	11
				London	8,346	9	5
				Lincoln	£1,050	16	2
				Lincoln	504	16	2
				In Transit	100	0	0
					1,655	12	4
	£ 14,951	8	8		£ 14,951	8	8

NOTE.—In preparing the above combined Balance Sheet, the "Lincoln Branch Account" in the London books (£1,209 12s. 4d.) is reduced to £909 12s. 4d. (a figure which tallies with the London Account in the Lincoln books), £200 being debited to "Goods in Transit," and £100 to "Cash in Transit" as at the date of balance.

One other type of Branch account, proceeding upon ordinary principles but containing special features, may be mentioned in conclusion, viz. those relating to Branches, where all the commodities dealt in are supplied by the Head Office, and are charged to the Branch not at cost price but *at the price at which the Branch is to sell them*.

The accounts between the Head Office and the Branch in such a case are of the ordinary character, but in the preparation of a Profit and Loss Account care must be taken to include the Stock on hand at the end of the period at *cost price*, and not at the selling price at which it has been invoiced to the Branch.

The practice of invoicing goods to a Branch at sell-

ing price affords a better check, in many cases, upon the employees, and leakage of stock is minimized. At any given date the Branch must have in hand either stock (taken at selling price), book debts, or cash to the amount of its debit in the Head Office books, and any defalcations should, under this system, become quickly apparent.

This system also greatly facilitates the process of taking stock, a procedure which is carried out at frequent intervals by the great "Multiple Shop" concerns, which almost invariably employ the practice of invoicing all goods supplied to the various Branches at selling prices.

At balancing dates, entries must be passed in the Head Office books reversing the profit previously taken credit for on the stock remaining at that date unsold in the hands of the Branches. The system as here described is specially applicable to concerns owning many retail Branches doing an almost exclusively cash business, *e.g.* tobacconists.

FOREIGN CURRENCIES

(See also Compendium, pp. 684, 686-688)

In the preceding part of this chapter the principles upon which transactions between a Head Office and its Branches are recorded have been outlined. In the cases illustrated therein, however, it was assumed that the currency of the parent house and the Branch were the same in each case (*i.e.* British); it is necessary therefore to supplement the explanations given above with particulars of the method of dealing with the accounts of firms which have established branches in countries whose monetary system differs from that of the parent house.

The explanations previously given in regard to Branch accounts apply as between a home firm and its foreign Branch, subject to certain modifications arising out of currency differences. No new book-keeping principles are involved in the case of foreign Branches, and the rule as between Head Office and Branch of treating each other, for book-keeping purposes, as debtors and creditors applies with equal force. The method upon which Branch profits are brought into the Head Office books by means of a debit to the Branch account also applies in principle.

The Head Office books must, of course, be kept in sterling in order that a sterling Trial Balance may be available; and, at the same time, the Branch books must be kept in currency in order that convenient records of local trading may be forthcoming. There are thus two

sets of books kept concurrently, one at home in sterling, and the other abroad in foreign currency, and transfers of value are continually passing from the one set of books (kept in sterling) to the other set of books (kept in the local currency), or *vice versa*, through a "Branch Account" kept in the former set of books in sterling, and complemented in a "Head Office Account" kept in the local currency in the Branch books.

I. BRANCHES WITH STABLE RATES OF EXCHANGE

If the foreign Branch is established in a country where the rates of exchange with London are stable, the problem of dovetailing the foreign Trial Balance, the foreign profits made, and remittances between the Head Office and the foreign Branch into the Head Office books becomes a simple one. If a certain amount of the foreign currency can be uniformly taken to be the equivalent of £1 sterling, all the transactions with the foreign Branch which involve local currency can be recorded in sterling in the Head Office books upon the basis of this exchange ratio, and the "local currency" balance of the "Head Office Account" upon the Branch books, if converted into sterling at this rate, will equal the balance of the "Branch Account" kept in sterling in the Head Office books. A further consequence is that, without upsetting the agreement of the Head Office books, the Branch Trial Balance can be converted into sterling and amalgamated with the Head Office Trial Balance (eliminating, of course, the balances of the "Head Office" and "Branch" Accounts), and the profit made by the Branch, when converted into sterling at the fixed rate, can be credited to the Head Office Profit and Loss Account in the ordinary way.

This assumption is possible in the case of most European countries, the United States, and the majority of the British colonial possessions, *i. e.* in the case of countries wherein the local standard of currency is gold. In the case of countries whose standard of money is silver, and where a gold currency does not exist, the value of the local unit expressed in pounds sterling rises and falls with the price of metallic silver on the London metal market; such "fluctuating" currency therefore requires special treatment if a Branch house is established within their boundaries.

The following assumptions are usually permissible in

the case of foreign branches in the countries set out below—

France (1), Belgium (1), Switzerland (1), Italy (2), Austria (3)	} 25 francs (1), or 25 lire (2), or 24 crowns (3) = £1 sterling.
United States of America and Canada	
British India	15 rupees = £1 sterling.
Germany	20 marks "
Straits Settlements	10 dollars "
Mexico	10 dollars "
Holland	12 "gulden" "
Russia	10 roubles "
Denmark, Norway and Sweden	} 1 dollar = 49½ pence. 18½ kronen "

These assumed rates of exchange will rarely differ from the actual rate current at any one time by more than 2*d.* to 3*d.* in the £ sterling; for instance, the French mint par of exchange, *i. e.* the theoretical value in French money of £1 sterling, is approximately 25·22½ (*i. e.* 25 $\frac{45}{100}$ francs for £1 sterling), which differs to the extent of only 2¼*d.* from the rate given above, and this **Par of Exchange** is the point about which market quotations should theoretically tend to approximate. Similarly, the German par of exchange differs to the extent of approximately 4*d.* in the £ from the arbitrary rate of 20 marks to the £ given above, the Dutch rate 3*d.* in the £, and the Danish rate 1½*d.* in the £. The British India rate of 15 rupees to the £ is a very common dealing quotation, as is also the United States rate of 49½*d.* per dollar.

In the case, therefore, of foreign Branches situate in any of these "stable exchange" countries, which keep their books in the local foreign currency, an arbitrary rate of exchange can be assumed for converting items from currency into sterling and *vice versa*.

The "Branch Account" in the Head Office Ledger should be ruled with columns for sterling and currency on either side, and all assets sent by the Branch to the Head Office, or *vice versa*, should be passed through this account in both sterling and foreign currency, the conversion being effected at the agreed "fixed" rate of exchange. In remitting cash from the Head Office to the Branch, or *vice versa*, the rate of exchange at which the remittance

is actually effected through a bank will, in all probability, differ from the rate of exchange assumed for the purposes of book-keeping records. In order to preserve the continuity of the assumed rate of exchange throughout the books, the number of dollars, francs, marks, or whatever the currency expression of the remittance may be, must be worked out in sterling at the assumed rate, and the sterling figure so arrived at is the amount which must be entered in the Branch Account in the Head Office books; the difference between this sterling figure and the sterling sum actually paid to or received from the bank should be regarded as so much incidental premium or discount, and should be carried to the "Profit (or Loss) on Exchange" Account.

An illustration of this principle may perhaps be given here with advantage. Assume that a London house with a Branch in Paris, working upon a "fixed" exchange of 25 francs to the £, remits to the latter a cheque for fcs. 25,000 bought in London from the Credit Lyonnais.

For this cheque the London house will pay, according to the rate of the day, say 25·10 (*i. e.* 25 $\frac{1}{10}$ th francs, being the equivalent of £1), viz. £996 0s. 4d. The Head Office will not, however, debit the Paris house with £996 0s. 4d., but with 25,000 francs at an exchange of 25, viz. £1,000, and will credit the difference between the actual cost of the francs (£996 0s. 4d.) and the assumed value at the "fixed" rate (£1,000), *i. e.* £3 19s. 8d., to the "Profit (or Loss) on Exchange" Account kept in its own books.

Conversely, if the Paris house buys a draft for £1,000 at exchange 25·10, paying 25,100 fcs. therefor, and remits it to London, the London house must credit the Paris Branch with 25,100 fcs. and £1,004 sterling, debiting £4 to the "Profit (or Loss) on Exchange" Account and £1,000 to its bankers.

If preferred, remittances between a Head Office and its Branch instead of being entered immediately upon their occurrence in the Branch Account, may be debited or credited in sterling to a separate account, ruled with currency and sterling columns, and entitled "Remittance Account." This account can be extended into local currency at the fixed rate of exchange at the end of the trading period, and can then be transferred, in total, into the Branch Account, the total "Profit (or Loss) on Exchange" (*i. e.* the total or net difference between the transactions converted at the actual rates and the same transactions converted at the arbitrary rate) being there-

PHILADELPHIA BRANCH ACCOUNT

(Exchange, 49 $\frac{1}{2}$ ¢. per \$) Cr.

Dr.

Date.	Details.	L.F.	\$	£	s.	d.	Date.	Details.	L.F.	\$	£	s.	d.
1908.							1908.						
Jan. 1	To Balance brought forward		4,866.92	1,000	0	0	Jan. 15	By Cash		19,467.68	4,000	0	0
" 30	" Goods		257.95	53	0	0	" 16	" Proceeds of securities sold		9,935.54	800	0	0
Feb. 9	" Goods		19,467.68	4,000	0	0	" 20	" Returns		175.20	36	0	0
" 17	" Goods		10,023.71	2,060	15	10	" 12	" Cash		1,002.97	206	1	7
" 27	" Goods		12,035.64	2,472	19	0	" 18	" Cash		10,023.71	2,060	15	10
							" 28	" Balance carried down		12,088.80	2,483	17	5
1908			\$ 46,637.90	£9,586	14	10				\$ 46,637.90	£9,586	14	10
Mar. 1	" Balance brought down		\$ 12,088.80	£2,483	17	5							

NOTE.—The above account represents the account kept by a Head Office in its Ledger for a Branch business owned by it at Philadelphia U.S.A. The concern is one in which every transaction is converted at the fixed rate of exchange of 49 $\frac{1}{2}$ pence per dollar (i.e. the approximate "mint" par of exchange).

upon transferred in one item to the "Profit (or Loss) on Exchange" Account in the Head Office books.

Where a business is working on a "fixed" rate of exchange in this manner, and remittances between the Head Office and its Branches are frequent, the "profits and losses" on exchange will frequently equalize one another approximately. If the assets carried in the Branch books are considerably in excess of the amount of the local creditors, the use of a fixed rate of exchange, which is in reality below the normal rate (*i. e.* in which the number of units of local currency taken for the fixed rate is less than in practice), may cause slight over-valuation of the excess of foreign assets over liabilities, and thus tend to slightly overstate the assets in the London Balance Sheet as a whole. Where this tendency is apparent, a reserve for loss on exchange should be built up in the London books, and for this purpose the "profits" apparent on remittances may be utilized.

A form of Ledger account containing columns for sterling and local currency, suitable to contain the record of Branch accounts and Remittance accounts is on p. 380, the entries in which are sufficiently clear without further detailed explanation.

An example of the Trial Balances appertaining (1) to the London Head Office and (2) to the Indian branch of a London firm having a branch at Calcutta is also annexed, showing the manner in which the two are amalgamated. A fixed rate of Exchange of 15 rupees to the £ has been adopted throughout the business.

LONDON & BENGAL TRADING CO., LTD., LONDON & CALCUTTA.

LONDON TRIAL BALANCE, December 31, 1908

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Share Capital—						
10,000 Shares of £1 each				10,000	0	0
Reserve Fund.....				1,000	0	0
Investments on account of Reserve Fund—						
£1,000 London County 3½ per cent.						
Stock at par	1,000	0	0			
Sundry Debtors.....	762	4	9			
Calcutta Branch Account.....	4,042	0	0			
Sundry Creditors.....				89	11	4
Cash at London and Westminster Bank...	889	4	7			
Profit and Loss Account, balance January 1, 1908				609	10	9
Goodwill	5,000	0	0			
Loss on Exchange	5	12	9			
	£11,649	2	1	£11,649	2	1

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LONDON & BENGAL TRADING CO., LTD., LONDON & CALCUTTA.

CALCUTTA TRIAL BALANCE, December 31, 1908

	<i>Balances as rendered by Calcutta Branch.</i>		<i>Balances as converted into sterling at fixed exchange of 15 rupees to £.</i>					
	<i>Rupees.</i>	<i>Rupees.</i>	£	s.	d.	£	s.	d.
Cash at Bank of Bengal.....	15,060.00		1,004	0	0			
Stock of Goods on hand.....	30,030.00		2,002	0	0			
Sundry Debtors....	154,515.00		10,301	0	0			
Bills Receivable....	30,900.00		2,060	0	0			
Freehold Land and Buildings.....	15,000.00		1,000	0	0			
Plant and Machinery.....	45,075.00		3,005	0	0			
Sundry Creditors....		180,915.00				12,061	0	0
Head Office Account		60,630.00				4,042	0	0
Profit and Loss Account (Balance, net profit for year)		49,035.00				3,269	0	0
	<i>Rs. 290,580.00</i>	<i>Rs. 290,580.00</i>	£19,372	0	0	£19,372	0	0

LONDON & BENGAL TRADING CO., LTD., LONDON & CALCUTTA.

BALANCE SHEET, December 31, 1908

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Share Capital—				Goodwill.....	5,000	0	0
10,000 Shares of £1 each	10,000	0	0	Plant and Machinery.....	3,005	0	0
Reserve Fund.....	1,000	0	0	Freehold Land & Buildings	1,000	0	0
Sundry Creditors—				Stock on hand.....	2,002	0	0
London.....£39 11 4				Sundry Debtors.....	11,063	4	9
Calcutta.....£12,061 0 0				Bills Receivable.....	2,060	0	0
	12,100	11	4	Investment on Account of			
Profit and Loss Account—				Reserve Fund—			
Balance brought forward.....£609 10 9				£1,000 London County			
Net Profit for the year.....£3,263 7 3				3½ per cent. Consolidated			
				Stock at par.....	1,000	0	0
				Cash at Bank—			
				London.....£39 4 7			
				Calcutta.....£12,061 0 0			
					1,843	4	7
	£ 26,973	9	4		£ 26,973	9	4

It has been assumed for the purposes of the foregoing explanations that the Branch assets and liabilities are contained in the currency Ledger kept at the Branch and not in the sterling Ledger kept at the Head Office. Very little reflection will show that Branch assets such as Buildings, Plant, etc., could, as far as book-keeping record is concerned, be kept just as conveniently in the Head Office books as in the Branch books. Any assets bought, or constructed and paid for, by a Branch can be written

off its books and transferred to a new account opened in the London books, by means of the "Branch Account" open between the houses; if, however, such assets are transferred to the home books columns in the home Ledger for the insertion of the local currency cost will be needed. It would be a difficult matter to keep the foreign branch debtors and creditors in the Head Office books in lieu of at the Branch, the entry of these particulars in the Head Office Ledger does not therefore arise for consideration.

Where the foreign Branch or business is not of a trading nature, and the keeping of proper local books of account is impossible owing to inefficient administration, expense, or a variety of causes, it frequently becomes necessary to keep the foreign Branch books in England. In this case they can be kept upon lines similar to those which would be adopted if they were being kept at the Branch; a branch Cash Book, Journal, and Ledger can all be kept in the local currency notwithstanding the fact that they are being kept in England, and the Trial Balance of, or the totals appearing upon, the foreign Ledger can be converted into sterling at the end of the year at the assumed rate of exchange. Where the currency balances on the Branch Ledger are thus converted into sterling at periodical intervals the use of a Ledger similar in form to that illustrated on p. 380 is necessary.

Some accountants, when keeping foreign Branch books *in extenso* in this country, prefer to convert every transaction from currency into sterling at an agreed rate of exchange; the work of such conversion is necessarily most laborious, and there is usually no valid reason why it should be undertaken, a periodical conversion of the debit and credit Ledger totals being all that is needed.

If the Trial Balance *only* of the Branch Ledger is converted the necessary labour can be still further reduced.

II. BRANCHES WITH FLUCTUATING RATES OF EXCHANGE

The book-keeping of a concern owning a Branch situate in a country where the value of the local currency expressed in the pound sterling is subject to constant fluctuations becomes less simple than is the case where the exchange is a stable one.

The general scheme of the books is identical with the system first described above as suitable for use in the

case of a Branch where the exchange is stable, except in regard to remittances as between the Head Office and the Branch, and *vice versa*, and the conversion of the Branch Trial Balance and profits at the end of the year.

In the present case, as in the former, the Branch books are kept in currency only, the Head Office being credited in currency with all sums received from it, and with the balance of profits, and being debited in currency with all the sums remitted to it. The Branch assets and liabilities are assumed for the moment to be kept in the Branch books.

The Head Office will keep a "Branch Account" in sterling in its Ledger, having memorandum columns for currency annexed, together with a "Remittance Account" containing similar columns. The use of a Remittance Account, into which remittances can be entered immediately upon their occurrence, is practically essential in the case of a fluctuating currency, though not in the case of a stable one. This account will contain the remittances for the year or other trading period, and will be closed at the end of the year by a transfer to the Branch Account.

Throughout the whole of the given period the Head Office and Branch books are run separately, though concurrently, and at the end of the year the question arises of the conversion of the Branch Trial Balance into sterling, and its subsequent amalgamation with the Head Office Sterling Trial Balance.

The Branch Trial Balance is, of course, entirely in local currency; the rate of exchange of this currency has fluctuated throughout the year, and stood at a particular figure at the end of the year.

The whole of the Branch Trial Balance requires to be converted into a sterling Trial Balance, which latter must "agree."

The Balances comprised in the Branch Trial Balance should be converted into sterling at the following different rates of exchange, the conversion being effected in the "sterling columns" annexed to the Branch Trial Balance; this will of itself produce a Trial Balance in sterling which fails to agree; the sterling Trial Balance must then be made to agree by inserting the amount of the difference on the side upon which it is needed, such difference being called the "Profit" or "Loss" upon Exchange, and treated as such.

The conversion rates are as under—

1. Convert the Fixed Assets held at the Branch (*i.e.* the assets held for use, such as Buildings and Plant) at the rates of exchange ruling when they were bought.
2. Convert the Floating Assets (*i.e.* the assets held for conversion into money, such as Cash, Book Debts, and Stock) at the rate of exchange current on the last day of the period, and convert the amount owing to the local creditors at the end of the period at the same rate.
3. Convert all Profit and Loss balances, or the balance of the Branch Profit and Loss Account, if that alone be shown, at the average rate ruling throughout the financial period.
4. Convert all remittances for the period (*i.e.* balance of the Remittance Account) at the actual rate of exchange.
5. Convert the balance of the Head Office Account at the commencement of the financial period at the rate at which it was included in the Trial Balance prepared at the end of the previous period.

The instruction (No. 1) to convert the Fixed Assets into sterling at the rates ruling at the time of their purchase means in practice that—

- (a) The Fixed Assets bought prior to the commencement of the trading period under review are converted at the same rates as were used in the Balance Sheet made up at the end of the previous trading period.
- (b) The Fixed Assets bought, during the trading period under review, must be converted at the average rate for the period or the rate at which any special remittance for the purpose of buying such assets was made.

The reason why the Fixed Assets are converted at the rates of exchange ruling at the time of their purchase is because they remain in the foreign country, and because their value for use, not for conversion into money, is all that concerns the Head Office.

Floating Assets and Liabilities are converted at the rate ruling on the last day of the financial period, because,

in either case, conversion into money or satisfaction in money is contemplated, and by converting at these rates the same position is shown as would arise if liquidation took place on the last day of the period.

All Profit and Loss Account balances are converted at the average rate ruling during the financial period, because they may reasonably be taken to have accrued more or less continuously throughout the period.

As has already been mentioned, upon conversion of the Trial Balance taking place, the amount necessary to make its two sides agree is inserted as Profit or Loss on exchange. The Trial Balance then becomes an "agreed" one, and the transfer of the profit to the Head Office Profit and Loss Account can take place in the ordinary way by means of a debit to the "Branch Account" in the Head Office books; the balance of the Remittance Account must also be transferred into the Head Office Account. Amalgamation of the Branch Trial Balance (in sterling) with the Head Office Trial Balance can then be effected in the ordinary way.

These principles are illustrated in the subjoined example.

A. BROWN & Co., LONDON AND RIO DE JANEIRO.

RIO DE JANEIRO TRIAL BALANCE, Dec. 31, 1908

	Dr.	Cr.
	Milreis.	Milreis.
Freehold Land and Buildings (at Dec. 31, 1907)	250,000.000	
Freehold Land and Buildings (additions during year).....	11,000.000	
Stock of Goods on hand (Dec. 31, 1908).....	82,082.000	
Sundry Debtors.....	160,640.000	
Sundry Creditors.....		96,656.000
Bills Receivable.....	48,496.000	
Investment : Milreis 50,000, State of Amazonas		
Internal 5 per cent. Bonds, bought at 90....	45,000.000	
Cash at London & Brazilian Bank.....	49,682.000	
Profit and Loss Account (balance, Dec. 31, 1908)		60,672.000
Head Office Account (balance, Dec. 31, 1907)...		599,472.000
Remittance Account (£10,000 remitted to London)	160,000.000	
	Ms. 756,800.000	Ms. 756,800.000

NOTE.—Freehold Land and Buildings are to be converted at the rate ruling when the assets were purchased (15½*d.* per milreis), and the additions at the average rate ruling for 1908 (15½*d.*). The rate ruling at the close of the year was 15*d.*; the Investment was bought as a permanent investment and is to be treated as having been bought at a time when the rate ruling was 16*d.* The equivalent of the Head Office Account balance (Ms. 599,472.000) as shown by the London books is £37,469 12*s.* 7*d.*

From the above information prepare the Trial Balance for incorporation with that prepared from the London Books.

A. BROWN & Co.

RIO DE JANEIRO TRIAL BALANCE, Dec. 31, 1908, as
converted into sterling for incorporation in the London Books

Balance.	Rate at which converted.	Dr.			Cr.		
		£	s.	d.	£	s.	d.
Freehold Land and Buildings..	1577.	15,885	8	4			
Ditto (additions)	1577.	770	8	1			
Stock on hand	1577.	2,502	6	0			
Sundry Debtors	1577.	2,000	0	0			
Sundry Creditors	1577.				5,041	0	6
Bills Receivable	1577.	3,031	0	0			
Investment in Amazonas 5 per cent. Bonds Mar. 31, 1909, cost							
Mar. 15, 1909	102.	8,000	0	0			
Cash at Bank	1577.	3,102	0	0			
Profit and Loss Account							
Balance	1577.				3,048	8	4
Head Office Account (Balance	as per last						
Dec. 31, 1907)	accounts				37,779	16	7
Head Office Account (Remit-	100. (current						
tances, 1908)	rate)	10,000	0	0			
Profit on Exchange					241	13	1
		£47,779	16	8	£47,779	16	8

* This item will be credited to "Profit on Exchange" and debited to the Branch Account in the Head Office books at December 31, 1908. The balance of profit shown by the above Trial Balance will be debited to the Branch Account in the Head Office books, and credited to the Head Office Profit and Loss Account in the ordinary way.

In the case of British companies whose entire income is earned abroad—a company owning and working a tobacco plantation, for example—practically the whole of the local expenditure is in Cash, and, on the other hand, the proceeds of the crop, which is sold in Europe, pass through the Head Office books only.

In such cases, even where the local currency fluctuates considerably, it is customary for a fixed rate of exchange to be adopted. The monthly expenditure upon the plantation is returned in the form of a monthly columnar "Cash Return," in which analysis columns are provided for the various headings of expenditure in which the "Crop Cost Account" ultimately appears. These sheets are entered, in the local currency, in a "Foreign Journal" kept in columnar form at the Head Office, and the additions of each column are carried forward from month to month until ultimately the totals for the trading period are completed. These totals, at the close of the year or other period, are converted at the fixed rate of exchange and transferred to the "Crop Cost Account."

All remittances to the plantation are posted at the fixed rate of exchange to the "Remittances Account"

in the Head Office Ledger, and the differences between such sums and the amounts actually realized abroad by the remittances, as shown by the Monthly Cash Returns, are treated as Profit or Loss upon exchange, and are duly transferred to that account in the Head Office books. The net profit or loss on exchange for the period is, at the close of the year, apportioned *pro rata* over each item appearing in the Crop Cost Account. In this way each item of expenditure bears its due proportion of the loss upon exchange, or benefits by the profit, as the case may be.

This method greatly simplifies the Head Office book-keeping, and results in a satisfactory adjustment of any currency fluctuations which may have occurred.

If the need arises the fixed rate of exchange can be adjusted from time to time should the local currency conditions seem to demand its amendment.

EXERCISES.

19A.

From the following Trial Balances, extracted respectively from the books kept at the London office and the Liverpool Branch of Brampton Bros. & Co., Ltd., prepare the combined Balance Sheet of the undertaking as at December 31, 1908.

The London office remitted £1,000 cash to the Liverpool Branch on the afternoon of December 31, 1908, through the London and United Provinces Bank; this remittance was not credited to the firm's Liverpool Branch until January 1, 1909.

The Trading and Profit and Loss Accounts have been closed prior to the preparation of the following Trial Balances, the latter consequently only show the net balance of the Profit and Loss Account in either case.

BRAMPTON BROS. & Co., LTD.

London Office Trial Balance, December 31, 1908.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Share Capital issued, 10,000 shares of £1 each				10,000	0	0
Debentures, 4 per cent. First Mortgage				10,000	0	0
Freehold Premises	3,492	16	6			
Plant and Machinery	1,029	4	10			
Sundry Debtors	10,432	16	1			
Sundry Creditors				2,924	12	3
Cash at Bank	4,219	16	8			
Bills Receivable	2,550	0	0			
Stock on hand	4,216	19	3			
London Office Profit and Loss Account (Balance)				4,947	2	6
Liverpool Branch Account	1,930	1	5			
	<u>£27,871 14 9</u>			<u>£27,871 14 9</u>		

Notes.—The Authorized Capital of the Company is £20,000, divided into 20,000 shares of £1 each.

BRAMPTON BROS. & CO., LTD.

Liverpool Branch Trial Balance, December 31, 1908.

	Dr.			Cr.		
	£	s.	d.	£.	s.	d.
Cash at Bank	921	4	3			
Stock in hand	1,294	16	3			
Sundry Debtors	2,362	14	9			
Furniture and Fittings	104	3	6			
Bills Receivable	150	0	0			
Plant and Machinery	462	12	10			
London (Head Office) Account				930	1	5
Profit and Loss Account (profit for year 1908)				803	15	5
Sundry Creditors				3,561	14	9
	<hr/>					
	£5,295	11	7	£5,295	11	7

19B.

From the following Trial Balance prepare the Profit and Loss Account and Balance Sheet of L. Smith, a manufacturer whose business is divided into two departments, viz. "A" and "B," for the year 1908. These accounts are to be shown so as to reveal the result of the operations of each department separately as well as the combined result. The expenses appearing in the Profit and Loss Account are to be apportioned as between the two departments according to the net volume of sales for the year in each department.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Freehold Land and Buildings	20,500	0	0			
Plant and Machinery	14,396	0	0			
Sundry Debtors	2,914	0	0			
Sundry Creditors				23,246	9	5
Manufacturing Wages, Dept. A	3,294	9	1			
" " Dept. B	5,291	4	9			
Manufacturing Charges, Dept. A	2,046	14	2			
" " Dept. B	3,096	4	8			
Stock on hand, Jan. 1, 1908, Dept. A	2,049	16	2			
" " Dept. B	5,629	14	3			
Salaries of "Counting" house Staff	2,249	10	0			
Rates, Taxes and Insurance	635	9	9			
General Expenses and Commissions	1,524	18	5			
Capital Account, L. Smith				30,000	0	0
Cash at Bank and in hand	10,454	7	1			
Sales, Dept. A				11,324	9	5
" " Dept. B				16,986	14	1
Purchases, Dept. A	4,396	2	1			
" " Dept. B	3,294	1	9			
Returns Outwards, Dept. B				214	19	3
	<u>£81,772</u>	<u>12</u>	<u>2</u>	<u>£81,772</u>	<u>12</u>	<u>2</u>

Note.—The value of the Stock on hand as on December 31, 1908, was as follows—

					£	s.	d.
Dept. A	.	.	.	.	3,092	17	6
Dept. B	.	.	.	.	4,924	10	9

19c.

From the subjoined Trial Balances, extracted from books kept respectively at the London and Paris offices of Reville & Co., Ltd., prepare the combined Balance Sheet of the undertaking as on December 31, 1908. A fixed rate of exchange of 25.20 francs to the £ is employed in the business.

REVILLE & Co., LTD.

London (Head Office) Trial Balance, December 31, 1908.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Share Capital				10,000	0	0
Stock of Goods on hand (Dec. 31, 1908)	3,295	12	6			
Sundry Debtors	1,924	14	3			
Sundry Creditors				4,991	6	2
Freehold Premises	8,050	12	6			
Furniture, Fittings and Fixtures	132	9	5			
Bills Receivable	450	0	0			
Cash at Bank	456	15	11			
Cash in hand	10	9	6			
Paris Branch Account (fcs. 42,800 at 25.20)	1,698	8	3			
Profit and Loss Account (London), net profit for year 1908				1,029	16	2
	<u>£16,021</u>	<u>2</u>	<u>4</u>	<u>£16,021</u>	<u>2</u>	<u>4</u>

REVILLE & Co., LTD.

Paris Branch Trial Balance, December 31, 1908.

	Dr.		Cr.	
	Fcs.		Fcs.	
Sundry Debtors	40,800.05			
Sundry Creditors			28,000.00	
Stock of Goods on hand (Dec. 31, 1908)	12,500.00			
Furniture, Fittings and Fixtures	2,000.00			
Bills Receivable	4,500.00			
Cash at Bank	13,097.50			
Insurance paid in advance (proportion unexpired)	98.00			
Cash in hand	1,926.00			
London Office Account (remittances received)			42,800.00	
Profit and Loss Account, balance, being net profit for the year 1908			4,121.55	
	<u>Fcs. 74,921.55</u>		<u>Fcs. 74,921.55</u>	

19d.

1. Explain how the Trading and Profit and Loss Accounts of an undertaking should be framed in a case where it is desired to obtain a separate figure of net profit (or loss) for the trading conducted by each separate department. How should the office salaries and other

counting house expenditure be dealt with when preparing departmental accounts?

2. Explain the relations of the Head Office of a trading undertaking with its Branch, and *vice versa*, as regards their book-keeping, in a case where the Branch is supplied with both capital and stock from the Head Office, but otherwise trades in an independent manner.

3. How should the Head Office of a trading concern record the transactions between itself and a Branch Office established in France? Show how, and from what materials, the Balance Sheet of the combined undertaking is to be prepared for publication.

4. A London firm of fancy goods manufacturers establishes a Branch at Rio de Janeiro (where the local currency takes the form of "milreis," and is liable to constant fluctuations in value). Write a detailed explanation for the use of the book-keeper in London, showing how the accounts as between London and Rio de Janeiro are to be kept and adjusted.

Answers.—

- 19A. Balance of Profit and Loss Account, £5,750 17s. 11d.
Balance Sheet Totals, £32,237 4s. 11d.
19B. Net Profit: Dept. A, £866 6s. 2d.; Dept. B, £2,168 19s. 9d.
Balance Sheet Totals, £56,281 15s. 4d.
19C. Profit and Loss Account, Credit Balance, £1,193 7s. 3d.
Balance Sheet Totals, £17,295 15s. 8d.

CHAPTER XX

JOINT ACCOUNTS—JOINT ADVENTURE ACCOUNTS

It frequently happens that two or more traders agree to embark together in limited co-partnership in some particular trading adventure or speculation, sharing the resulting profits between them according to their agreed interests, and mutually contributing to the expenses incurred in carrying out the undertaking. Such a transaction is called a "**Joint Adventure.**" There is, in such a case, no need of a partnership name as representing the partners in the adventure, nor does the relationship of the parties necessarily extend beyond the particular transaction contemplated. Apart from these characteristics the operation may be regarded as tantamount to a more or less restricted partnership for the special transaction which has been entered into for the mutual benefit of the parties.

The "adventure" frequently takes the form of a joint consignment of goods, but it may, of course, assume the shape of a joint speculation in stocks or shares, the chartering of a ship, a joint underwriting operation, or any other form wherein the combination of the interests concerned may be profitably employed.

Sometimes, but rarely, the matter is treated as if it were an actual partnership entered into for the special operation, a separate banking account being opened in the joint adventurers' names, and a separate set of books being kept to record the transactions. In such a case the matter resolves itself, for book-keeping purposes, into an ordinary partnership, continuing until conclusion of the venture and then liquidated. The explanations previously given as regards partnership accounts will apply, in such cases, and will regulate the book-keeping for a "joint adventure" of this type.

In the majority of cases, however, owing to the temporary nature of the partnership, it is not worth while for the sharers in the enterprise to go to the expense or trouble of keeping a separate set of books for the joint adventure. Each adventurer opens an account

in his Ledger for the undertaking, and treats the "Joint Adventure" as if it were personified; the adventure therefore becomes an ordinary debtor to him for everything disbursed upon its account; similarly, everything received by each adventurer in respect of the joint adventure is credited by him to the "Joint Adventure" Account.

Upon conclusion of the operation, the "Joint Adventure" accounts appearing in each party's Ledger are combined into one statement, showing the details of the whole transaction from start to finish. In this statement, the profit shown on the operation is divided between the partners, and each party must then debit his share of the profit to the Joint Adventure Account in his Ledger. The result of thus debiting the profits (or crediting the losses, if losses there be) in each party's books will be to show a certain debit balance upon the Joint Adventure Account in one party's books and a credit balance for the same amount in the Joint Adventure Account in the other party's books. When the adventurer whose "Joint Adventure Account" shows a credit balance pays the amount of such balance to the other adventurer the Joint Adventure Account on both party's books will close automatically.

These principles are illustrated in the subjoined example, in which the Joint Adventure Account, as it would appear upon the books of both parties, is shown, together with the combined statement prepared from, but outside, the Ledger of either party.

Herbert Wilson of London and Robert Fitch of Cape Town combined in a joint shipment of certain specified fancy goods, made by the former to the latter; profits being shared equally between them.

Pursuant to the arrangement H. Wilson bought on January 2, 1909, 10 cases of fancy goods at £24 10s. per case, paying cash for the same, and paying in addition—

	£	s.	d.
Railway charges to London, £1 per case . . .	10	0	0
Freight to Cape Town, £2 10s. per case . . .	25	0	0
Insurance, stamps, and sundries . . .	8	4	6

On the same day H. Wilson drew a sight draft upon R. Fitch for £100 on account of the consignment, and sold this bill to the Standard Bank of South Africa for £99 10s., the discount upon which is to be borne by the adventurers jointly.

R. Fitch received delivery of the goods from the Shipping Company on January 28, 1909, and honoured H. Wilson's draft on the same day. R. Fitch made the following payments on account of the joint venture—

	£	s.	d.
February 3. Landing and warehouse charges . . .	8	5	10
January 29. Government duty . . .	15	10	10
February 4. Stamps, postages, and sundries . . .	1	4	6

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R. Fitch sold the whole of the 10 cases of goods on February 2 for cash at £38 per case. On February 4 he prepared, from the entries in his own books and from the details furnished to him of H. Wilson's disbursements, a statement of the combined result of the joint venture, remitting to H. Wilson the amount due to the latter in respect of the transaction together with his share of the profit.

This remittance was made by means of a Bank Draft obtained free of charge, and the draft was cashed by H. Wilson on February 26.

Note.—Questions of interest, as between the partners in the venture, are to be disregarded.

H. WILSON'S LEDGER.

JOINT ACCOUNT WITH ROBERT FITCH					Cr.				
Dr.									
1900.		£	s.	d.	1900.		£	s.	d.
Jan. 2	To Cost of 10 cases of fancy goods at £24 10s. per case	109	245	0 0	Jan. 2	By Bills Receivable— Bill drawn on account of consignment. B.R.	91	100	0 0
" 2	" Railway charges	325	10	0 0	Feb. 26	" Cash received from R. Fitch..	876	221	16 8
" 2	" Freight.....	325	25	0 0					
" 2	" Insurance, stamps, and sundries.....	325	8	4 6					
" 2	" Discount on Bill drawn on account of consignment.....	325	0	10 0					
Feb. 26	" Share of profit realized (half of £66 4s. 4d.)	J.	83	2 2					
		134							
		£	321	16 8			£	321	16 8

R. FITCH'S LEDGER.

JOINT ACCOUNT WITH H. WILSON					Cr.				
Dr.									
1900.		£	s.	d.	1900.		£	s.	d.
Jan. 28	To Draft of H. Wilson, paid....	46	100	0 0	Feb. 2	By Proceeds of 10 cases fancy goods sold	132	380	0 0
" 29	" Government duty on fancy goods	46	15	10 10					
Feb. 3	" Landing and warehouse charges.....	47	8	5 10					
" 4	" Stamps, postages, and sundries.....	J.	1	4 0					
" 4	" Share of profit realized (half of £66 4s. 4d.).....	J.	83	2 2					
" 4	" Cash, cost of Bank Draft remitted to H. Wilson	49	221	16 8					
		£	380	0 0			£	380	0 0

MESSRS. H. WILSON & R. FITCH.

JOINT VENTURE IN FANCY GOODS

(Combined Statement)

1900.		£	s.	d.	1900.		£	s.	d.
Jan. 2	To Cost of 10 cases of fancy goods at £24 10s. per case.....	245	0	0	Feb. 2	By Proceeds of 10 cases of fancy goods at £38 per case...	380	0	0
" 2	" Charges in London—								
	Railway charges.....	10	0	0					
	Freight.....	25	0	0					
	Insurance and sundries.....	8	4	6					
	Discount.....	0	10	0					
" 29	" Government duty at Cape Town.....	15	10	10					
Feb. 3	" Charges in Cape Town—								
	Landing and Warehouse Charges.....	8	5	10					
" 4	Stamps, postages, and sundries.....	1	4	6					
" 4	" Net Profit divided—								
	H Wilson £33 2 2								
	R. Fitch.....38 2 2								
		66	4	4					
		£	380	0			£	380	0

X COST ACCOUNTS

Cost accounting came into increased prominence during the great war, and many manufacturers who formerly regarded cost accounts as a necessary nuisance, now recognise them to be one of the essentials of successful management.

Costing may be defined as a method of accounting designed to ascertain the actual cost of articles manufactured, or of contracts executed, by means of analytical records of the wages paid and the raw, or partially manufactured, material used in respect thereof. By means of accurately prepared cost accounts a business man is enabled to know the exact cost, direct and indirect, of each article, ton, or other unit which he manufactures, or of each job, or contract, he undertakes. He can thus regulate his selling prices; base estimates or tenders on his past experience; compare trading periods and different methods of manufacture; locate weak points in his

factory; eliminate waste and unprofitable work; prevent theft, and inefficiency whether of management or workmanship.

The student must clearly understand that cost accounts are quite distinct from the financial accounts, although the necessary data are obtained from the same sources. Special records and books are necessary for the costing records, and no posting from one set of books to the other is permissible, except where certain books contain "memoranda" columns for convenience, as explained later. The costing results should, however, as nearly as possible, be capable of reconciliation with the financial records, and should be designed to allow periodical comparisons to be made.

No one system of cost accounting can be applied in every detail to all businesses alike. It is clear, therefore, that in a general text-book such as this principles only can be dealt with. Many text-books are available which deal with particular trades and aspects of costing, and to those the student who desires to specialise in the subject is referred.

It is useless to attempt costing unless an accurate system of **Stock and Store Accounts** has first been installed. The word "Stores" in this connection covers all raw materials, partially manufactured goods, or other articles, used in manufacturing, or in carrying on the business. It is essential to keep proper records of all items passing in and out of store, as much of the information necessary for costing records is derived from this source.

The raw material used is so diverse that no stereotyped forms can be laid down as being applicable to all cases. The following principles, however, adjusted to suit particular requirements, are generally observed:—

A capable store-keeper is placed in charge of the stores and no other person is allowed to take in, or issue, stores. Bins, lockers, racks or other suitable receptacles are provided for the stores. A card, or label, is attached to each bin, similar in form to that shown on p. 400c. Particulars of all goods received into, or withdrawn from, stock are entered on these cards. At stated periods, the cards are balanced and agreed with the **Stores Ledger**, described hereafter. When the cards show that stocks are running low, the store-keeper sends a requisition to the buying department for fresh supplies. Full particulars of these requisitions are entered by the store-keeper in a **Stores**

Purchases Book, ruled with columns for entering the quantity, weight, or measure, price, date of receipt, and other particulars of all goods purchased for store. In all cases, goods must only be issued from store in exchange for a properly filled up **Requisition Form**, similar to that shown on p. 400*c*, signed by the foreman requiring the goods. If any stores requisitioned remain over after the job is completed, they must be entered on a *credit slip*, similar in form to the requisition slip, and returned to the store-keeper, who will treat them in his records as an entirely fresh receipt of stores. All goods so issued must be recorded in a **Stores Issued Book**, a ruling of which is shown on p. 400*d*; and details of stores received and issued are finally collected in the **Stores Ledger**, see p. 400*e*. The Stores Ledger should be posted by the counting-house staff and *not* by the store-keeper. The necessary information is obtained from the store-keeper's books, the requisition and credit slips, invoices, etc., the object of the book being to show the quantity of any given article in store. The balances in this ledger should agree with the bin-cards described above. A ledger account is opened for each article of importance, "omnibus" accounts serving for the smaller items. The opening item in each account is the stock of the particular article at the close of the last trading period. In addition to providing a useful check on the store-keeper, the Stores Ledger saves much time and trouble at stock-taking periods, and simplifies the work of the ordering department.

The Card Index system is growing in popularity as a rival to the older form of Stores Ledger.

It is obvious that in addition to book-keeping skill, working knowledge of the technical details of a manufacturing business is essential in order to devise an efficient costing system. Details, of course, vary greatly, but the main **Elements of Cost** are the same in all businesses, and divide themselves into:—

- (a) Items directly related to the articles manufactured, such as materials and labour. These *direct* expenses are called **Prime Cost**.
- (b) Expenses which cannot be directly allocated to any particular article of manufacture, or job, such as Power, Rent, Rates, Office Salaries, Bad Debts and the like. These *indirect* expenses are called **Oncost, - Overhead, or Fixed Expenses**.

The combined totals of (a) and (b) represent **Gross Cost, or Cost of Production.**

Every costing system, then, must deal with (1) Labour, (2) Materials, (3) Oncost expenses. Labour and Materials will vary with the turnover, but oncost expenses will usually remain more or less stable.

Labour.—Wages may be paid (a) on a daily or hourly basis, *i. e.* at a fixed rate per day or hour, (b) at a “piece-work” rate, *i. e.* a definite price is fixed per job or process, or (c) on the “premium” or “bonus” system, under which a percentage increase is paid above the standard rate in respect of output exceeding the standard quantity. The men are booked into the works by a time-keeper, or “clock” themselves in by a time-recording machine. Each workman is supplied with a daily or weekly time sheet similar in form to that shown on p. 400b. These sheets are filled in by the men themselves, and are subsequently checked either with the time-keeper’s records or those provided by the time-recording machine. As it would be inconvenient to post each time sheet individually, the particulars they contain are grouped and analysed in an **Abstract of Wages**, whence they are posted either (a) to the particular job or contract to which they relate, or (b) to Oncost Charges, Capital Expenditure, or similar accounts, if they cannot be charged direct to any job. A ruling of an Abstract of Wages dealing with Capital Expenditure is given on p. 400d. The abstract of wages for items chargeable direct to particular jobs is similar in form but contains more columns, the number of the particular job or process being entered in the left-hand column. All wages are posted from the Abstract of Wages, or from Wages Analysis Sheets, to (a) the cost account in the Cost Ledger of the particular job or process concerned, or (b) to the Plant and Machinery Register, either as a whole, or to individual machines, or (c) to the “Loose Tools Account” as representing the cost of making or repairing loose tools.

Materials.—The student will realise that the second item of prime cost cannot be charged out with the same facility as direct labour. It has already been explained that the first essential in this connection is the installation of an accurate system of recording the receipt and issue of materials from store. All goods required in the workshops must be withdrawn from store by means of the authorised requisition forms as shown on p. 400c. The

price at which they are withdrawn should be that shown in the Stores Ledger, and will consist of cost price plus carriage inwards calculated at the nearest workable fraction per unit.* These requisition forms should be summarised weekly in the **Materials Abstract**, a specimen of which is given on p. 400*f*. The weekly totals shown in the Abstract must be posted in the Cost Ledger to the job or item of expenditure to which they relate. All materials returned to store should be entered in the Abstract in red ink, and deducted from the item to which they relate. In many cases it is desirable to post to the Cost Ledger in as much detail as is reasonably possible, this book being useful for future reference. Goods purchased specially for any particular job or contract can be charged direct from the Purchase Journal, in which a column for "Direct Purchases" (No. of job; amount; Cost Ledger folio, etc.) should be provided. In similar manner direct expenses may be posted from the Cash Book as "memoranda."

The Cost Ledger is the place of assembly for the various components of the cost of every job, series of articles, or other unit, and separate accounts must be opened for every operation, the cost of which it is desired to ascertain. A form of Cost Ledger is given on p. 400*f*. The information necessary for posting this ledger is derived from the Abstract of Wages, Materials Abstract, Purchases Journal, and Cash Book. When all accounts in the Cost Ledger have been written up to date, so far as materials and labour are concerned, there still remains the final element required to arrive at the gross cost or cost of production, namely, oncost expenses.

Oncost Expenses.—This term embraces all expenditure essential to the proper upkeep of the factory, and includes such indirect expenses as establishment, administration, distribution, and similar charges, which form an integral part of the cost of production, but which, because they are common to all, cannot be earmarked to any particular article or contract. Clearly, oncost expenses must be based on past experience; that is to say, the oncost figure for any given year must be based on the total oncost expenses of the previous year, or on the average for a

* Many manufacturers deal with Invoice price only in the Stores Ledger. This practice certainly avoids the delay in calculating and apportioning carriage.

selected period. The figures necessary for the compilation of the oncost total will be found in the Trading and Profit and Loss Accounts.

Having arrived at the necessary figure, it is clear that it can only be charged out by means of apportionment over the output upon some equitable basis. It is not always easy to determine this basis. The peculiar characteristics of the undertaking must be taken into account. If the standard unit of production is per ton, per barrel, per hundred or per thousand, the question of apportionment presents little difficulty, but where articles of diverse nature are manufactured, the question of apportionment is more complex. •

Oncost is usually divided into (a) shop, and (b) office or administration expenses. The former includes the wages of all men, *e.g.* foremen, furnace and boilermen, storekeepers, etc., whose wages cannot be charged directly to any particular job. It also includes the cost of power, lighting, heating, repairs, depreciation, rent and rates of factory, and similar charges. The latter class (b) covers office and administration expenses, such as office, showroom and warehouse rent, rates and taxes; insurance; lighting; travellers' salaries and commission; office salaries and expenses; carriage outwards; packing, advertising, and the like.

Shop Oncost is usually apportioned as a fixed percentage on (a) Cost of Materials, or (b) Cost of Labour (time or cost); or (c), (a) and (b) combined; or (d) a fixed rate per hour worked; or (e) a fixed rate per machine hour worked; or (f) a fixed sum per unit of production. In the majority of cases, the most equitable basis is a fixed percentage upon the cost of the direct labour included in the prime cost, since, in normal times, this is a more constant factor than the cost of materials. The percentage charged will represent the ratio between the total oncost expenses and the total productive wages paid; the "hourly rate" (d) is arrived at by ascertaining the ratio between the total oncost expenses and the total number of hours worked apportioned over the various jobs, according to the time occupied on them. The "machine rate" (e) is found by taking the first cost of the machine, less any residual value, adding the estimated cost of maintenance and the rental value of the space occupied, and dividing this total by the estimated number of working hours embraced in the life of the machine. This

calculation gives the hourly rate chargeable to each article according to the time the machine was used in its production. As already stated, the fixed percentage—*e. g.* 50 per cent.—on direct wages added to prime cost is, in most cases, the most equitable, though possibly not the most scientific, basis to adopt.

Office Oncost.—In some cases, the somewhat rough and ready method is adopted of charging out administration oncost as a fixed percentage upon works oncost. In other cases, the various items composing the total oncost are dealt with separately on their merits, as is explained below. The total office oncost to be charged out is ascertained from the Trading and Profit and Loss Accounts. Frequently, these accounts are specially drafted under the headings required for costing purposes, such as "Direct Wages," "Direct Purchases," "Indirect Wages," "Office Charges," "Administration Charges," and so on. This practice facilitates costing operations considerably. When the total office oncost has been ascertained, it is usually divided amongst the various departments upon the basis of turnover; or floor, or cubic space occupied; or average power consumed, or some other equitable basis. Each department then allocates its proportion of the whole, over the articles manufactured, upon the basis of the time occupied, or whatever other method of apportionment has been adopted.

As indicated above, certain items are sometimes treated on special lines. For example, rent, lighting, heating, cleaning, superintendence, insurance, depreciation and the like, may be apportioned on the basis of horse-power hours, electric current used (if separate meters are installed), cost of labour and material, or some similar basis applicable to the circumstances. Rent and Rates may be apportioned according to the estimated value of the space occupied by the various shops or departments; salaries upon the previous year's output; cost of power upon the horse-power consumed; lighting upon the number of points in use; depreciation upon the approximate amount of capital involved, and so forth. Other similar illustrations could be given, but enough has been said to indicate the variety of the methods employed.

Having briefly dealt above with the main principles upon which costing is based, we arrive at the following table of cost of any given job or series of articles:—

	£	s.	d.
Direct Wages	—	—	—
Materials	—	—	—
Direct Expenses	—	—	—
Prime or Flat Cost	—	—	—
Works oncost (say 50% on wages)	—	—	—
Works Cost	—	—	—
Office oncost (say 15% on works cost)	—	—	—
Cost of Production	—	—	—
Profit	—	—	—
Selling Price	—	—	—

WEEKLY TIME SHEET

Time Sheet for Week Ending 19 .

Workman's Name

,, Number

,, Occupation

Rate per hour.....

Days.	Particulars of Work done.	Customer's Name.	Job No.	Hours.		Total Time.
				Time.	Over-time.	
Friday . .						
Saturday .						
Monday .						
Tuesday .						
Wednesday						
Thursday .						
Totals						

£ s. d.

Foreman's Signature.

Amount due hours at

Deductions

.....

Amount payable £

BIN OR LOCKER CARD

LIMIT

{

MAXIMUM

MINIMUM

No. of Bin	Nature of Goods
1	...
2	...
3	...
4	...
5	...
6	...
7	...
8	...
9	...
10	...
11	...
12	...
13	...
14	...
15	...
16	...
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87	...
88	...
89	...
90	...
91	...
92	...
93	...
94	...
95	...
96	...
97	...
98	...
99	...
100	...

Date.	Stock Received.		Given out on Requisition.			Balance on Hand.
	From whom.	Quantity or Weight.	Date.	Required for.	Quantity or Weight.	

REQUISITION FORM

Stores Requisition

Date, 19

No.
Goods required for
(Job or Contract No.)

[illegible]

400h BOOK-KEEPING AND ACCOUNTS

COLLIERY

COST SHEET

Week ending

Tons raised Days occupied

	Cost per ton.	
	£ s. d.	£ s. d.
I. Underground Wages:		
Getting and loading coal		
Transport		
Deputies		
Checking and Ripping		
Roads and Wayleaves		
New roads		
Faults		
Sundries		
Cost per ton	£	
II. Surface Wages:		
Labourers		
Joiners		
Fitters, Smiths		
Pumping Station		
Winding and Ventilation		
Weigh-house		
Sundries		
Cost per ton	£	
III. Working Expenses:		
Timber (prop wood)		
Stable expenses		
Stores, underground		
Stores, surface		
Pit rails		
Repairs and renewals		
Ropes and chains		
Bricks, lime, etc.		
Coal used		
Rent and Rates (surface)		
Depreciation		
Surface damage		
Royalties, Wayleaves, etc.		
Sundries		
Cost per ton	£	
IV. Management and Administrative Charges:		
Salaries and Commission		
Office and Travelling Expenses		
Bad debts and Discounts		
Sundries		
Cost per ton	£	
Total cost per ton		
Average price realized per ton, £	£	

[NOTE.—Columns are sometimes provided for the insertion under each heading of the total figures to date for such portion of the financial year as may have elapsed prior to the current Cost Sheet. Columns for the purpose of comparison with corresponding periods are also sometimes useful.]

EXERCISES.

[N.B.—The present edition of the Key does not contain solutions to these exercises.]

1. Outline briefly, with sketches of books, any system of entering and checking the stores used in a manufacturing business with which you are familiar, and of which you approve.—*Chartered Accountants.*

2. Clients of yours suspect a leakage in their stock, and request you to advise them as to the best method of recording the charge to, and issue from, stores of goods purchased. Select one of the undermentioned businesses, and submit a short report on the system you advocate, together with specimen forms: (a) Retail Store (Three departments); (b) Engineer; (c) Hardware Merchant; (d) Tobacco Manufacturer.—*Chartered Accountants.*

3. Explain briefly, with examples, the system of stock and cost accounts which you would introduce for use in the office of a firm, whose chief articles of manufacture consist of small machine parts. What is the first step you would take in introducing the system you recommend?—*R.S.A.*

4. Briefly describe an efficient system of recording the receipt and issue of goods from store to departments in any manufacturing business with which you are familiar. Illustrate your answer with a sketch of a Stores Ledger you would recommend, and make three specimen entries therein.—*Chartered Accountants.*

5. Select an article in common use, describe the materials, labour, and expenses which enter into the cost of producing it, and frame a Cost Sheet in a form calculated to present details of the cost of production in the most useful form to the manufacturer.—*R.S.A.*

6. Select a type of business, and describe an efficient system of recording the receipt and issue of goods from store, and illustrate your answer with a sketch of a "Stores Received and Issued Book."—*R.S.A.*

ROYALTY ACCOUNTS

The term "Royalty," as employed in commerce, expresses a payment, somewhat in the nature of a rent, made for the right of user in connection with certain property, such, for example, as patent or mineral rights. The "royalties" payable by the publishers of a book to an author retaining the copyright furnish a further instance, as also do those royalties payable by the vocalists who sing to the owners of the copyright of the songs.

The foregoing examples, and other royalties of a like nature, do not call for any special treatment as regards their book-keeping record; they are usually either business expenses (in the books of the payer of them) or profits (in the books of the recipient); there is, however,

one class of royalties, viz. those paid for mineral rights, which requires special explanation.

Mineral Royalties.—Many forms of royalty are calculated on the basis of the payment of a certain sum of money in respect of each occasion upon which the property involved is used, *e.g.* each instance in which patent rights are made use of, or each copy of a book or piece of music sold. Mineral royalties are almost invariably based upon the number of units of mineral extracted, a certain sum of money being payable in respect of each unit, *e.g.* a "royalty" of 6*d.* per ton on every ton of coal won from a given specified area, although in the case of mineral royalties certain additional stipulations are usually inserted in every agreement in order that an equitable arrangement between the parties may be arrived at.

The owner of an area of land which is traversed by seams of coal usually exacts, when leasing the right to win coal to a colliery lessee, a royalty of so many pence per ton upon the coal "won," *e.g.* 6*d.* per ton.

Royalties are generally based upon one or other of the undermentioned rates—

- (a) A fixed rate per ton of coal "gotten" or "won." The coal being taken "through," *i.e.* "small" and "large" coal together.
- (b) A fixed rate per ton won with a different scale for "large" compared with "small" coal, or with different rates for different seams.
- (c) A rate per ton won based upon a sliding scale, which varies with the "pit mouth" price of coal.
- (*d*) A fixed price per foot thickness of the seam of coal worked ("Footage").
- (*e*) A fixed price per acre worked.

Frequently a small percentage upon the total output is allowed free of royalty to cover the coal consumed in running the plant and machinery employed in the colliery.

In other cases, where the coal deposits are very deep, one or two years are sometimes allowed to the lessees for development purposes before the Royalty and Mining Rent Clauses come into operation.

If the agreement between the landlord and the lessee were to go no further than the fixing of a royalty to be paid upon each ton of coal extracted, the landlord would

be entirely in the lessee's hands as regards the amount of the royalties payable; the latter could work on a restricted output or refrain from working any coal at all unless it suited his convenience, in which case the landlord would receive little or nothing in the way of royalties.

A landlord naturally desires to be able, in granting a colliery lease, to count at least upon a moderate and certain regular income, and in order to meet his requirements in this respect the custom exists of naming a round sum of money in the lease as a "minimum rent," * *i.e.* a specified rent, which is payable whether the workings of the colliery, calculated on a basis of so much per ton, equal the "minimum" mentioned or not. Even if the coal area remains unworked the minimum rent is nevertheless payable.

In years of restricted output the amount by which the "minimum rent" actually paid under the lease exceeds the agreed royalty on the output (which latter would be payable if no minimum rent were stated in the lease) is commonly known as "short workings" (or "shorts"). This name is applied to the deficiency of tonnage, as well as to the monetary expression of the deficiency in terms of the royalty payable.

It frequently happens that, during the early years of the "life" of a colliery, while the mine is being opened up, the output is more or less scanty, and the minimum rent has consistently to be paid owing to the low output. As soon, however, as the development work has been successfully accomplished the colliery starts working upon a normal basis, and the output gradually rises above the point at which the minimum rent merges into a royalty on the output. In order to alleviate the hardship which might otherwise arise as regards the lessee, through the effect of the "short workings" in early years, the lease usually contains a clause to provide for what is known as the "recoupment of short workings." Such a provision usually stipulates that any "short workings" occurring in earlier years may be offset against the larger outputs of later years, subject to the proviso that a sum at least equal to the minimum rent must be paid in every year of the lease's term. The right to "recoup"

* Other local terms to express the same meaning are: Dead Rent, Annual Rent, Head Rent, Sleeping Rent, Fixed Rent, Certain Rent, etc.

"short workings" continues in many leases over the first few years only (three to five) of a colliery's existence, "short workings" occurring in later years being irrecoverable. In other mining districts the privilege extends over the whole period of the lease.

The practical working of the various provisions set forth above may be made more clear by the use of a concrete example. A colliery might be granted a lease of a coal area at a royalty of 6*d.* per ton with a minimum rent of £200 per annum, and power to recoup "short workings." The effect of this would be that if less than 8,000 tons were "won" in a given year the minimum rent of £200 a year would be payable, but that if 8,000 tons or more were worked in a given year the royalty at the rate of 6*d.* per ton upon the output would be payable.

The actual outputs for the three years following the granting of the lease mentioned above may be taken as under—

First year	3,000 tons
Second year	10,000 "
Third year	20,000 "

The royalties payable will then be as set forth below.

First year.—The minimum rent of £200 is the equivalent (at a royalty of 6*d.* per ton) of an output of 8,000 tons. In this year only 3,000 tons have been worked, the £200 minimum rent is therefore payable, and the lessee may (as a memorandum) carry forward 5,000 tons of "short workings" for subsequent recoupment, if possible, out of the results of later years.

Second year.—If there had been no provision in the lease granting the recoupment of "short workings" royalty would have become payable at the rate of 6*d.* per ton on the whole output of 10,000 tons; as, however, there are in existence some "short workings" which the lessee is permitted to "recoup," they can be made use of subject to the proviso that not less than the minimum rent of £200 per annum shall be paid. By claiming the benefit of 2,000 tons' "short workings" out of the 5,000 tons short worked in the first year, the royalty due can be reduced to the royalty on 10,000 tons less 2,000 tons, *i.e.* on 8,000 tons, which, at the rate of 6*d.* per ton, is £200. This £200 is, therefore, paid to the landlord, and the balance of "short workings," available for use in future years, is reduced to 3,000 tons.

Third year.—Similarly, if there had been no provision in the lease as regards “short workings,” royalty would have become payable on the whole output of 20,000 tons; there are, however, 3,000 tons of “short workings” (see above) remaining available for recoupment. By applying these in reduction of the 20,000 tons of output for royalty purposes the royalty actually payable is reduced to that due upon 17,000 tons, viz. £425.

The principles upon which royalties and “short workings” are to be recorded in the books of a colliery lessee are as follows—

- A. Since the Working and Profit and Loss Account records only the product of the sale of the output for the period, the debit appearing in this account in respect of “royalties” must represent the royalty on *actual output* for the period, whether this is above or below the minimum rent.
- B. If, in any given year, the royalty based on the output is *less* than the “minimum rent” actually paid, the deficiency (*i.e.* the “short workings”) should be debited to an asset account entitled “Short Workings,” which account should be carried forward to future years as an asset account as long as there is a reasonable chance of the output of later years being sufficiently high to recoup the balance remaining upon the account. In cases where the year’s royalty on the output is less than the minimum rent, it is the *royalty on output* which is, as set forth in paragraph A, to be debited to the Profit and Loss Account, the “short workings” being ranked as an asset for the time being.
- C. If, in any given year, the royalty due upon the output *exceeds* the minimum rent, it is still the royalty on the output which is to be debited in the Profit and Loss Account, notwithstanding that by the application of previous years’ “short workings” the actual payment to the landlord may be reduced below this sum.
- D. When the accumulated “short workings” amount to such a sum that, by reason of the near approach of the time limit for recoupment as well

as in view of the low colliery output, there is no reasonable hope of their ever being recouped; any balance on this account must be written off to the Profit and Loss Account, and no further "short workings" should be treated as an asset unless there is a reasonable prospect of their subsequent recoupment.

The holding up of irrecoverable "short workings" as an asset presents, of course, one method by which the Balance Sheet and Profit and Loss Account of a colliery may be made to misrepresent the actual condition of affairs, and, to avoid misrepresentation, the matter must always be dealt with upon as conservative a basis as possible.

The entries necessary to record royalties and "short workings" are as under—

Case I.—*If the royalty payable on the output equals or exceeds in any given year the minimum rent stated in the lease.*

- (1) *Debit* the Royalties Account (an expense account subsequently transferable to the debit of the Profit and Loss or "Working" Account) with the royalties payable, and (2) *Credit* the Personal Account of the landlord with the like sum.

The landlord's account is closed by debiting it with (a) the cash paid to him, and (b) the previous year's "short workings" (if any) reclaimed from him (see below).

Case II.—*If the minimum rent stated in the lease, and subsequently paid, exceeds the royalty at the agreed rate worked out on the actual output for the year (i.e. where the minimum rent clause comes into operation to prevent the landlord suffering from a bad year's output).*

- (1) *Debit* the Royalties Account with the royalty due at the agreed rate worked out on the actual output.
- (2) *Debit* the "Short Workings" Account with any short workings.
- (3) *Credit* the landlord's Personal Account with the sum of the foregoing debits, i.e. with the minimum rent, and debit his account with any cash payment made to him.

The "Short Workings" Account must be regarded as an asset account until the close of the period prescribed by the lease during which the recoupment of "short workings" is permissible, provided, as has already been stated, that there is a reasonable probability of the output being sufficiently large to permit of such recoupment.

Any "short workings," the eventual recoupment of which cannot be reasonably expected, and any "short workings" occurring after the prescribed period for recoupment has expired, must at once be debited to the Profit and Loss Account.

An example illustrating the payment of Royalties and the recoupment of "short workings" is appended.

The Pontyffraith Colliery Company, Ltd., took from the Earl of Landore a lease of a coal-bearing area for a period of twenty years, from January 1, 1904, upon the terms of a royalty of 6*d.* per ton upon the output with a minimum rent of £200 per annum, and with power to recoup "short workings" over the first four years of the lease.

The annual outputs for the five years following the granting of the lease were as follows—

1904	.	.	5,000 tons.
1905	.	.	8,000 "
1906	.	.	10,000 "
1907	.	.	10,000 "
1908	.	.	12,000 "

Show the Royalties, "Short Workings," and Landlord's Ledger accounts as they would appear in the books of the Colliery Company. Ignore all questions of Income Tax.

Dr.

ROYALTIES ACCOUNT

Cr.

1904			£	s.	d.	1904.	£	s.	d.
Dec. 31	To the Earl of Landore, royalty upon the output for 1904 (5,000 tons)	J.17	125	0	0	Dec. 31	By Transfer to the Profit and Loss Account ...	J.18	125 0 0
			£	125	0 0				£ 125 0 0

1905.			£	s.	d.	1905.	£	s.	d.
Dec. 31	To the Earl of Landore, royalty upon the output for 1905 (8,000 tons)	J.30	200	0	0	Dec. 31	By Transfer to the Profit and Loss Account ...	J.17	200 0 0
			£	200	0 0				£ 200 0 0

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1906.			£	s.	d.	1906.			£	s.	d.
Dec. 31	To the Earl of Landore, royalty upon the output for 1906 (10,000 tons)	J.42	250	0	0	Dec. 31	By Transfer to the Profit and Loss Account...	J.44	250	0	0
			£	250	0				£	250	0

1907.			£	s.	d.	1907.			£	s.	d.
Dec. 31	To the Earl of Landore, royalty upon the output for 1907 (10,000 tons)	J.65	250	0	0	Dec. 31	By Transfer to the Profit and Loss Account...	J.68	250	0	0
			£	250	0				£	250	0

1908.			£	s.	d.	1908.			£	s.	d.
Dec. 31	To the Earl of Landore, royalty upon the output for 1908 (12,000 tons)	J.90	300	0	0	Dec. 31	By Transfer to the Profit and Loss Account...	J.90	300	0	0
			£	300	0				£	300	0

Dr. **EARL OF LANDORE (Landlord's Account)** Cr.

1904.			£	s.	d.	1904.			£	s.	d.
Dec. 31	To cash.....	49	200	0	0	Dec. 31	By Royalty	J.17	125	0	0
						" 31	" "Short Workings"	J.17	75	0	0
			£	200	0				£	200	0

1905.			£	s.	d.	1905.			£	s.	d.
Dec. 31	To Cash	104	200	0	0	Dec. 31	By Royalty	J.36	200	0	0
			£	200	0				£	200	0

1906.			£	s.	d.	1906.			£	s.	d.
Dec. 31	To "Short Workings" recouped	J.42	50	0	0	Dec. 31	By Royalty	J.42	250	0	0
" 31	" "Cash.....	157	200	0	0						
			£	250	0				£	250	0

1907.			£	s.	d.	1907.			£	s.	d.
Dec. 31	To "Short Workings" recouped	J.65	25	0	0	Dec. 31	By Royalty	J.65	250	0	0
" 31	" "Cash.....	192	225	0	0						
			£	250	0				£	250	0

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EARL OF LANDORE (Landlord's Account) *continued.*

1908.		£	s.	d.	1908.		£	s.	d.
Dec. 31	To Cash	314	300	0 0	Dec. 31	By Royalty.....	J.90	300	0 0
		£	300	0 0			£	300	0 0

Dr.		"SHORT WORKINGS"						Cr.				
1904.			£	s.	d.	1904.			£	s.	d.	
Dec. 31	To the Earl of Landore("Short Workings" for 1904).....	J.17	75	0	0	Dec. 31	By Balance carried down.....	✓	75	0	0	
		£	75	0	0				£	75	0	0

1905.		£	s.	d.	1905.		£	s.	d.
Jan. 1	To Balance brought down...	✓	75	0 0	Dec. 31	By Transfer to the Earl of Landore ("Short Workings" re-couped)	J.42	50	0 0
					" 31	" Balance carried down.....	✓	25	0 0
		£	75	0 0			£	75	0 0

1907.		£	s.	d.	1907.		£	s.	d.
Jan. 1	To Balance brought down...	✓	25	0 0	Dec. 31	By the Earl of Landore ("Short Workings" re-couped).....	J.65	25	0 0
		£	25	0 0			£	25	0 0

✓✓ THE "DOUBLE ACCOUNT SYSTEM"

It has already been stated in this treatise that the method of presenting accounts which is known as the "Double Account System" is not a system of accounting in the same sense that book-keeping by Double Entry is. It is merely a special method of preparing a Balance Sheet in accordance with the lines laid down for certain kinds of Companies under the regulations of various Acts of Parliament. The student has already been warned (page 211) that he must not confound "Book-keeping by Single Entry" with that system of preparing a Balance Sheet which is known as the "Single Account" method, and experience shows that it is also necessary to warn him against a similar confusion of terms in those cases where the words "Double Entry" or "Account" are employed in expressing the method of book-keeping, or the principles

upon which a Balance Sheet has been prepared. Beyond the fact that Balance Sheets prepared either in the form of a "single account" or in that of a "double account" necessitate an efficient method of recording the transactions which they finally embody, there is no relation whatever between Double or Single Entry book-keeping, and the "Double" or "Single Account" systems of preparing Balance Sheets. Book-keeping by Double Entry is, of course, the only method of book-keeping under which a reliable Balance Sheet of either type can be constructed.

A Balance Sheet prepared upon the principles of the "Double Account System" proceeds upon the lines of demarcation drawn between what are known as the "Fixed" Assets and the "Floating" Assets of an undertaking, together with a similar distinction between its various liabilities. It is therefore necessary to reiterate briefly the significance of these terms before proceeding to describe the system itself.

Of the Assets owned by an undertaking at any given point of time, some will be found to have been acquired for the purpose of being used in the conduct of the business; the remainder, on the other hand, will be found to consist either of money itself or of assets held for the purpose of being converted into money at a subsequent date. The former class is known by the generic name of "**Fixed**" Assets, while the term "**Floating**" Assets is applied to the latter.

For example, the permanent way, embankments, bridges, stations, and rolling stock belonging to a Railway Company are typical Fixed Assets; such property has been acquired by the Company owning it solely for permanent use and not for subsequent conversion into money. On the other hand, the outstanding book debts due to a Railway Company, any temporary investments it may hold, and any stock of stores remaining on hand for future consumption, are all Floating Assets, inasmuch as conversion into money, either directly or indirectly, at an early date is the object for which such assets are held.

It will be obvious that, since it is the *purpose* for which the assets are held that determines to which of the above two classes they belong, and not the *nature* of the property itself, a particular asset may be a Fixed Asset in one business and a Floating Asset in another, *e.g.* a gas-engine, bought for use in a boot factory, is a

Fixed Asset from the point of view of the owner of the factory. The same engine would, however, have been a Floating Asset as long as it remained part of the unsold stock of a manufacturing engineer whose business it was to make and supply gas-engines.

In some instances an asset held by a given undertaking may appear, at first sight, to partake of the characteristics both of Fixed and Floating Assets, *e.g.* a piece of property acquired for subsequent sale if opportunity offers, but which is employed in the business in the mean time. In such cases, however, it will usually be possible to discern a greater degree of intention in one direction or the other, as between these two purposes; and, according to the direction in which the excess of intention inclines, the class to which the asset is to be relegated is determined. ✕

The Fixed Assets of an ordinary type of undertaking, being the equipment with which it fulfils its appropriate functions, will ordinarily constitute the greater part of the property owned; *e.g.* the cost of the lines and rolling stock employed by a Railway Company will usually far exceed any funds the company may hold in the shape of Floating Assets; moreover, the acquisition or construction of the properties held by an undertaking as Fixed Assets, will ordinarily represent the principal purpose for which its issues of stock, shares, permanent debentures or other forms of capital indebtedness have been made. It is, of course, necessary that, in the formation of a company, some allowance for a margin of "working capital" (*i.e.* capital held in a liquid or floating form) shall be made in estimating the amount of capital which must be sought for from the public, but the amount so held is ordinarily of small proportions as compared with the larger sums needed to construct and equip the concern from an operating point of view.

It was doubtless for the purpose of showing clearly, what portion of the capital raised (including in the term "capital" any funds obtained by the issue of debentures or other forms of indebtedness of a permanent character) has been expended in the construction or acquisition of Fixed Assets, and what portion of such capital remains unexpended at any particular date, that the twofold nature of a Balance Sheet prepared according to the "Double Account System" was originally conceived, and rendered compulsory in the case of certain companies

appealing for powers to construct and equip various classes of public undertakings.

The dominating idea in framing the prescribed form of these accounts doubtless was, that in cases where parliamentary sanction had been granted for raising and expending capital for certain specified purposes it was of paramount importance that the accounts should be so framed that the extent and direction of all capital expenditure should be clearly shown, and its exclusive use for the particular purpose for which its issue was sanctioned conveniently traceable.

In the case of an undertaking preparing its Balance Sheet according to "Double Account methods," two sections of the Balance Sheet are shown, instead of one, as is the case under the ordinary "Single Account System." In the first of these two sections the balances appertaining to the capital issued, and to the part of it sunk in Fixed Assets, are shown, together with the balance of the capital which has not yet been expended in these directions—the latter amount being the difference between the two former items; in the second, on the one side, the balance of capital brought from the first section, together with the current and all other Liabilities, including Depreciation and other Reserve Funds, and, on the other side, all the Floating Assets held by the concern. The first statement thus shows the Capital and the Fixed Assets of the concern, while the second statement contains the Floating Assets and Liabilities, the balance of the capital, as set forth in the first statement, being brought forward into the second section of the account. This "balance of capital" represents the amount of capital retained in liquid form, *i. e.* not locked up in fixed assets.

Occasionally it may happen that a Company has locked up, in the form of Fixed Assets, slightly more than the amount of the capital it has raised. It can, of course, only do this, as a matter of finance, either by utilizing any reserve funds it may possess, or by running into debt.

In such a case the first section of the Balance Sheet will show, (on the debit side) the sum sunk in acquiring the Fixed Assets, and (upon the credit side,) the amount of capital raised, together with the balance necessary to make the two sides agree. This balance represents the amount of capital overspent, which therefore appears as a Liability in the first section of the Balance Sheet, and

as an Asset in the second section, and can only be eliminated by means of a further issue of capital by the concern.

Forms of Balance Sheets prepared according to the "Double Account System" will be found in Chapter XXV, pages 524-529, and will serve to illustrate the principles set forth below. ✕

The "Double Account System" is of comparatively recent origin, and is of purely statutory derivation.* The system is compulsorily applied to many semi-public undertakings, the works constructed by which are deemed to be of a permanent nature, *e. g.*, railways, gas-works, water, and electric lighting companies. The accounts of such corporations show, perhaps with unnecessary elaboration, the various amounts of capital expended in past years in acquiring Fixed Assets and in other directions. It may however be doubted whether the division of the Balance Sheet into two sections serves any useful purpose which would not have been attained under the methods more generally employed in commercial circles.

The Balance Sheets of railways and other undertakings which, in this country, employ the "Double Account System" are efficiently prepared upon the ordinary "Single Account System" in the United States of America, and in almost all other countries, and, in the opinion of many accountants, there is no self-evident necessity for the adoption of the "Double Account System" by undertakings of this nature.

The concerns in which the "Double Account System" is applied were, when the system was originally prescribed, deemed to be *permanent* undertakings; it was therefore considered that, provided they always maintained an equivalent equipment to that with which they started, provision for depreciation was unnecessary. The obligation to maintain this "Equivalent Equipment" took the form of throwing upon the undertaking the responsibility of executing, out of current profits, all the repairs necessary to maintain the equipment in efficient working order, and also of replacing, out of current profits, any equipment which, owing to age or obsolescence, was no longer of service. Provided this course was pursued no provision for depreciation was held to be necessary, and the capital originally expended in acquiring the Fixed Assets of the

* The system was first prescribed under the Regulation of Railways Act, 1868.

undertaking was to be allowed to remain permanently unchanged in its accounts.

Any enlargement of the equipment, increase in the number of engines or rolling stock (in the case of a Railway Company), extension of works or other additional capital outlay from time to time, are added to the original capital expenditure; and, subject to the above-mentioned obligation upon the Company to "maintain" its equipment out of current revenue, such expenditure stands in the Company's books at its original cost.

In the opinion of some accountants this system of accounting presents many defects, the chief of which may be briefly stated as follows—

1. During the earlier years of the undertaking, when the equipment is new and the expenditure upon repairs is correspondingly small, and that upon replacements is non-existent, the current profits are relieved of charges for depreciation which, strictly speaking, they should bear; the divisible profits are therefore overstated, and their subsequent division "up to the hilt" not only constitutes an excessive payment of dividends, but impoverishes the undertaking, and inflates the market price of the shares above their true value.
2. In later years repairs and replacements fall heavily upon the undertaking which has no reserved profits to fall back upon; current dividends are therefore trenched upon and the price of the shares falls correspondingly. Thus no equilibrium is maintained between the early years and later years.
3. Capital sunk in constructing lines, stations or other objects embraced in the original project but subsequently abandoned remains in the Company's Balance Sheet at its original amount; whereas, under the "Single Account System," the cost of these moribund assets would probably be written off.
4. Legal and other charges expended in obtaining the passing of special Acts of Parliament on the Company's behalf are, under the "Double Account System," capable of being capitalized and treated for ever as an asset, whereas in an ordinary Company they would be treated as

"Preliminary Expenses" and written off over a period of years.

5. It is unsound to maintain that, because all replacements are borne by revenue, no further provision for wasting assets is necessary. For example, a Railway Company opens its system with 500 locomotives and, in due course, replaces 20 of them, out of revenue, with engines of a better and more costly type. So far as these 20 new engines are concerned well and good, but there are still the 480 old engines in connection with which wastage in value has undoubtedly taken place, but is ignored under the "Double Account System."

It will be obvious to the student that there is much to be said for some of these criticisms of the "Double Account System," though space forbids their discussion at length in this place.

It is well, however, to remember that, in many cases, Companies working under the "Double Account System" recognize the existence of wastage over and above that which is adequately met by replacements out of Revenue, and, in such cases, special Depreciation Funds are created.

Gas and Electric Lighting undertakings frequently raise depreciation funds in order to provide for the renewal of costly assets such as leasehold works, machinery and plant, etc.

Many other Companies, notably British Railway Companies, do not interpret the "Double Account System" too literally, and often charge replacements very generously to Revenue when old or obsolete assets are being replaced; and, in many ways, reserves and provisions are created out of Revenue. These reserves, under the Railway Companies (Accounts and Returns) Act, 1911, are now set out in the General Balance Sheet.

It has already been explained that the Balance Sheets of Railway Companies are compulsorily prepared in the United Kingdom upon the "Double Account System," whereas in the majority of other countries the "Single Account System" is adopted. An example, in condensed form, of a "Single Account" Balance Sheet issued by an American railroad is appended. The form of this statement may be usefully compared with the more cumbersome English form illustrated on pages 524-529.

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CHICAGO, INDIANA AND SOUTHERN RAILWAY COMPANY (U.S.A.)

CONDENSED GENERAL BALANCE SHEET, December 31, 1908

ASSETS	\$	LIABILITIES	\$
Cost of Road and Equipment	41,003,039.38	Capital Stock—	
Fuel and Supplies	432,074.65	Common	15,000,000.00
Current Assets—		Preferred	5,000,000.00
Cash in hands of Treasurer, re-			20,000,000.00
mittances in transit and sundry		Funded Debt—	
debtors	1,536,852.97	First Mortgage	
		Bonds	4,850,000.00
		Fifty-year 4 per	
		cent. Gold Bonds	15,150,000.00
			20,000,000.00
		Current Liabilities—	
		Bills Payable, accounts out-	
		standing and sundry creditors	2,951,481.89
		Profit and Loss Account—	
		Balance	40,585.11
	\$ 42,991,967.00		\$ 42,991,967.00

NOTE.—It will be seen that the Liabilities and Assets in this Balance Sheet appear on the opposite sides to those upon which they would appear according to British practice.

✓ GOODWILL

Some reference has already been made to the subject of Goodwill in its relation to Partnership and Joint Stock Company accounts upon pages 234 and 257 respectively; there are, however, certain points connected with this important subject which have not been considered previously in this treatise, to which, therefore, some brief reference is needful.

Goodwill has, as was previously mentioned, been defined as “the benefit arising from connection and reputation,” and although it is neither a tangible asset nor one which is capable, under ordinary circumstances, of ready realization, it is none the less a real and, in many cases, a most valuable type of property.

Goodwill is fully recognized as a transferable asset by the law, and agreements for its sale or conveyance are subject to *ad valorem* stamp duty.

The value of the Goodwill attached to a given business is obviously dependent upon the nature of the undertaking, and upon the circumstances connected with it. For the purposes of sale the Goodwill of a business is usually estimated as being worth a given number of years' purchase of the annual profits which may be expected to be derived from its possession; such future profits are usually estimated upon the basis of the average profits which have accrued during the last few years' trading immediately prior to the date upon which the sale takes

place. The average of profits to be employed for the purposes of valuing a "Goodwill" should be based upon the results of a sufficient number of years to give a fair estimate of future results, and in arriving at such average any special profits or losses due to extraneous circumstances should be disregarded. The average of the previous three to five years' results is usually employed in arriving at the value of Goodwill in ordinary commercial undertakings.

The number of years' purchase of these ascertained "average" profits to be taken in any given instance is naturally a matter which is subject to great variation according to circumstances. The Goodwill of a professional business, in the successful conduct of which the personality of the previous owner is of paramount importance, and which can only be transferred to a new owner with the probability of considerable loss of *clientèle*, may, in a given instance, only be worth from one to three years' purchase of the average profits previously derived from its possession; on the other hand, the Goodwill of a trading business showing average profits of a similar amount may be worth a much larger proportionate sum. This difference in value would be due to the less exclusively "personal" nature of the latter business as compared with the former. In fact, in many commercial undertakings the personal factor is practically non-existent in connection with the Goodwill, which may be largely a question of locality or of reputation for the quality of merchandise sold. In an ordinary case the Goodwill of a professional business may be taken to be worth from one to three years' purchase of the average past profits, and the value of the Goodwill of a trading business will ordinarily be worth from two to five years' purchase of similar average past profits. If a share only of the Goodwill is being disposed of, in cases where the previous partners, or some of them, continue to be associated with the undertaking, a greater number of years' purchase of the average profits will in many cases be obtainable by the vendors.

Again, where the average of the results of past years is based upon a series of descending profits, *i.e.* where the profits have in the past been steadily on the down grade, the Goodwill will obviously be worth less than where exactly the same average is shown by a series of ascending profits, *i.e.* where the business shows a sequence of

profits which are on the up-grade, each year showing a better result than its predecessor.

The personality of the intending purchaser of a Goodwill is an important factor in relation to the price to be paid for its possession; the approximate number of years' purchase stated above, viz. one to three years in the case of a professional business and two to five years in the case of a trading business, will usually apply when the intending purchaser is a private trader on his own account. If, on the other hand, the Goodwill of a trading business is to be sold to a Limited Company formed for the special purpose of acquiring it, the purchase price will frequently be considerably more than if it were being disposed of to a sole trader. This enhanced price arises out of the interposition of vendors' or promoters' profits in the case of a Company, and is rendered possible by the fact that the shareholder with limited liability in a Joint Stock Company will usually be content with a smaller rate of interest per cent. per annum upon his money than would be required by a purchaser trading upon his own account with unlimited liability. A Joint Stock Company can usually be more heavily capitalized in a similar business than a private partnership, and yet be in a position to satisfy its shareholders in point of income. If at a subsequent date a company of this nature fails to succeed the loss of capital to the ordinary shareholders is, of course, correspondingly large. The ordinary shares of many large companies are practically represented entirely by the purchase price of the "Goodwill," and in view of the excessive prices which the constitution of a Joint Stock Company allows to be placed upon this asset, and of its worthlessness should the undertaking fail to succeed, the capitalist who cannot afford to lose the principal, represented by his investment, should studiously eschew the *ordinary* or *deferred* shares of those industrial companies where the amount paid for the Goodwill of the business forms the principal part of the purchase price. ✕

Upon the failure of a trading concern, its "Goodwill" obviously becomes a valueless asset; and in like manner when the profits of an undertaking decrease during its course of trading, so the value placed upon its Goodwill should in theory diminish also. The question as to whether the purchase price paid by an undertaking for its Goodwill should be depreciated has been the subject of much controversy among accountants, but in actual

practice the original cost of the asset is rarely written down. In periods of depression, when the Goodwill has fallen in value, Directors of Companies usually object to throwing any additional burden upon the Profit and Loss Account in order to meet such depreciation, and it is only in prosperous years, when profits are abundant and the Goodwill presumably of corresponding value, that any depreciation of the asset is met with; in such years lump sums are sometimes written off Goodwill Account, from a laudable desire to eliminate an intangible asset from the Balance Sheet, or to reduce the profits available for distribution in order to conserve the financial resources of the Company in view of possible times of stringency in future years.

Goodwill is a fixed asset, and no attempt to record fluctuations in its value can be made; neither, it would appear, even where known depreciation exists, is there any legal obligation to reduce its book value prior to the payment of dividends (*Wilmer v. M Namara*). The asset should be stated in the Balance Sheet *at cost*, and such statement is not intended to convey any guarantee that its present worth is fairly represented by the amount at which it appears.

As pointed out above, however, the Directors of a Company may wisely decide to enhance the financial strength of the undertaking by reducing the book value of the Goodwill. In such circumstances some accountants are of opinion that the same end can be more advantageously attained by creating a Reserve Fund.

In any case, where a reduction of the book value of Goodwill has been decided upon the amounts written off are not in any sense charges against revenue, but should take the form of appropriations of profits, and should therefore appear in the appropriation section of the Profit and Loss Account. ✓

BANKRUPTCY AND "DEEDS OF ARRANGEMENT"

When the affairs of a trader or a partnership become financially involved, and further trading is impossible, it becomes necessary for his or their property to be realized and distributed *pro rata* among the creditors. A trader who is unquestionably insolvent (taking that word in the sense that he is unable to pay his debts as they fall due) cannot continue business in this condition for any extended period of time, although by an adroit system of "financing" his liabilities an unscrupulous trader

may postpone a crisis for months or even years after the period at which he first becomes insolvent. By the postponement of the accounts of such creditors who do not urgently press for payment; by incurring a series of fresh obligations to trade creditors with whom he has not previously dealt, and who, to secure a new customer, will often give extended terms of credit; by means of "Accommodation Bills"; by mortgaging and re-mortgaging all his available property; by overdrawing his bank account, if that be possible, and by a multiplicity of other questionable devices, the insolvent owner of an unprofitable business frequently trades in a steadily increasing condition of insolvency for a considerable period. The process is one, however, which cannot continue for an indefinite time. The patience of creditors at length becomes exhausted, and either of his own motion or by compulsion the trader is compelled finally to proceed into "bankruptcy" or to make a "private arrangement" with his creditors.

"**Bankruptcy**" infers the winding up of a debtor's estate according to the manner prescribed by law,* the distribution of the proceeds of such estate *pro rata* among the creditors, and, ultimately, the freeing of the debtor, by operation of law, from any further claim in respect to the unsatisfied portion of his indebtedness to his creditors.

A "**Bankruptcy Petition**" can be presented to a Bankruptcy Court either by a creditor (for £50 or over) or by the debtor himself. The petition is heard by a "Registrar" of the High Court of Justice or of the County Court, if such be resorted to, and a "**Receiving Order**" can be made upon it. A "Receiving Order" does not deprive the debtor of his property but protects it, placing it in the hands of an officer of the Court termed an "**Official Receiver**." Upon a Receiving Order being made the Official Receiver to whom the case is assigned calls a **First meeting of creditors**; this meeting may resolve that the Court shall be applied to, to adjudge the debtor a bankrupt, or, on the other hand, the meeting may entertain a **Scheme of Composition** for the gradual liquidation of the debtor's indebtedness. Upon "**Adjudication**" of bankruptcy the debtor becomes a **Bankrupt**, and the ownership of all his property passes automatically from him to a "**Trustee**," who is, in the first instance, the Official Receiver, and subsequently some person appointed by the

* Bankruptcy Act, 1914.

creditors. Soon after adjudication the bankrupt must attend a **Public Examination**, *i. e.* an examination before the Court as to his affairs, and he may thereafter apply for his "**Discharge**." An order of "discharge" is, as far as the bankrupt is concerned, the conclusion of his financial *débâcle*; it frees him from any further claims with reference to his debts, and permits him to start in business afresh with a clean sheet.

The Trustee as soon as possible after his appointment realizes the debtor's estate, or so much of it as is capable of realization. Out of the first funds available the **Preferential creditors**, *i. e.* certain creditors having priority for rates and taxes, wages and salaries, are paid in full, and the rest of the funds are then distributed equally among the creditors in proportion to their claims.

The creditors may, at their "first meeting," appoint some person approved by them (usually a professional accountant) to be the Trustee, or they may leave the matter in the hands of the Official Receiver, who will then act as Trustee; the creditors may at the same time appoint some of their number to act as a **Committee of Inspection**, which holds periodical meetings and supervises the liquidation of the debtor's affairs.

A debtor, upon the making of a Receiving Order against him, must submit to the Official Receiver in charge of the case, in the prescribed form, a Summary of his position called a "**Statement of Affairs**"; and, if necessary, he may obtain professional assistance in compiling the Statement. "Statements of Affairs" are prepared not only in bankruptcy cases, but also in cases of the compulsory winding up of Joint Stock Companies by order of the Court (where, again, an official form is prescribed), and in almost all cases of financial embarrassment. The statement sets forth on the one side the debtor's property, ranged according to its nature, and valued not, as in a Balance Sheet, upon a basis of book figures or as the property of a going concern, but at realization or "break-up" figures; on the other side of the statement the debtor's liabilities are set out. As has been previously indicated, a Statement of Affairs obviously differs greatly from a Balance Sheet prepared for a going concern; and in its preparation all fictitious or wholly unrealizable assets must be excluded.

The Official Statement of Affairs in bankruptcy consists of the following forms—

1. A statement in summary form showing the property owned by the debtor (valued as above set forth), the creditors' claims, and the amount of the "deficiency," *i. e.* the amount by which the debtor is insolvent.
2. Schedules explaining the various classes of assets and liabilities brought (in totals) into the statement mentioned above.
3. A Deficiency Account, which is in effect a transcript, with the sides reversed, of the bankrupt's Capital Account in his own Ledger, showing the capital he possessed (or the amount by which he was insolvent) at a given date prior to the bankruptcy, his gains since that time and the losses which have reduced him to insolvency.

Statements of Affairs prepared at the commencement of the compulsory liquidation of Joint Stock Companies resemble those prescribed in bankruptcy, subject, of course, to the various modifications necessary owing to the constitution of the Company.

An example illustrating the preparation of a Statement of Affairs in bankruptcy (the "Summary portion" contained on the "front sheet") and the relative "Deficiency Account" is appended. In the illustration the "schedules" have not been included, as they are merely lists explanatory of the items included in the "summary," and would occupy too much space to set out in detail.

Example.—From the following information prepare the Statement of Affairs and Deficiency Account of "A. Debtor," against whom a Receiving Order was made on January 1, 1909.

The total creditors amounted to £17,650, of which £500 is "fully secured" by a deposit of securities expected to realize £550; £1,000 is "partly secured" by a deposit of Stocks expected to realize £500; £1,000 represents a liability as indorser upon an Accommodation Bill expected to rank for the full amount, and £100 is rent for which the landlord can distrain, the remainder of the creditors are unsecured.

His assets are—Furniture, £10; Cash in hand, £1; Cash at Bank, 5s. 6d.; Investment, 50,000 fully paid £1 shares in the Ephemeral Gold Reduction Company, Ltd., valued at £1,000. Book debts—Good, £50; Bad, £4,000; Doubtful, £5,000 (the latter are expected to realize £1,000).

A. Debtor's capital on January 1, 1906, was £10,065, and his income since that date has been £1,350 10s. 9d.

He has, since January 1, 1906, spent £8,056 10s. on household expenses, £3,897 15s. 3d. in losses on Stock Exchange speculations, £6,000 on losses through betting, and has sustained further losses owing to bad debts to the extent of £8,000. (See pp. 424-426).

The accounts of a Trustee in bankruptcy must be kept according to a prescribed form; they must be audited by the Committee of Inspection periodically (monthly in the case of the Trading Account, and quarterly as regards the other accounts), and they must be submitted, at half-yearly intervals, for audit by the Board of Trade. An audited transcript of the trustee's "**Estate Cash Book**" is transmitted by the Board of Trade to the Court where the Receiving Order was made.

Upon the conclusion of the distribution of the whole estate, or upon the realization and distribution of all the realizable assets, the Trustee may apply to the Board of Trade for his "**Release**," giving notice to all creditors who have proved their debts and to the Debtor of his intention to do so. A **Realization Account** in the prescribed form, giving a summary of all the Trustee's receipts and payments, is sent out with the above notification. The granting of a "**Release**" to a Trustee discharges him from all liabilities incurred by him in the discharge of his duty to the bankrupt's estate and to the creditors.

DEEDS OF ARRANGEMENT

A "**Deed of Arrangement**" is a deed embodying an arrangement arrived at between an insolvent person and his creditors *generally*, or with certain creditors professing to act on behalf of themselves and all the other creditors *privately*, (*i. e.* without the intervention of the Bankruptcy Courts) in regard to his affairs.

A man may make such private arrangements with individual creditors as he chooses, but if, being financially embarrassed, he executes a deed in favour of his creditors *generally*, transferring all his property to one or more "**trustees**" for the creditors, to be held by such trustees either for realization and distribution among the creditors or for the continuance of trading operations on their behalf, this deed is termed a "**Deed of Arrangement**," and must be registered at a Government office.* Such a proceeding does not, as formerly, constitute an **Act of Bankruptcy** † (entitling a creditor to present a bankruptcy petition) if notice of the filing of the deed and its due "**assent**" is served upon creditors.

* Under the *Deeds of Arrangement Act*, 1914, such deeds are void unless assented to by a majority in number and value of the creditors within 21 days of registration.

† The "**Acts of Bankruptcy**" are as follows. If the Debtor has—(a) made an assignment of his property in trust for his

No. 34.—STATEMENT OF AFFAIRS

(Title)

In the * High Court of Justice

3d Bankruptcy

Re A. DEBTOR.

TO THE DEBTOR.—You are required to fill up carefully and accurately this Sheet, and the several Sheets A, B, C, D, E, F, G, H, I, J, and K (e) showing the state of your affairs on the day on which the Receiving Order was made against you, viz. the 1st day of January, 1915.

Such Sheets, when filled up, will constitute your Statement of Affairs, and must be verified by Oath or Declaration.

(a) Sheet "I," should be substituted for any one or more of such of the Sheets named as will have to be returned blank.

Gross Liabilities.			LIABILITIES (as stated and estimated by debtor).			Expected to rank.			Assets (as stated and estimated by Debtor).			Estimated to produce.		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
15,050	0	0	Unsecured Creditors, as per list (A).....	£	s.	15,050	0	0	Property, as per list (H), viz.—			0	5	6
			Creditors fully secured, as per list (B).....	500	0				(a) Cash at Bankers.....			1	0	0
500	0	0	Estimated value of securities.....	500	0				(b) Cash in hand.....					
			Surplus.....	50	0				(c) Cash deposited with Solicitor for costs of Petition.....					
			Less amount thereof carried to Sheet C.....						(d) Stock in Trade (cost £).....					
			Balance thereof to contra.....	50	0				(e) Machinery.....					
									(f) Trade fixtures, fittings, utensils, etc.....					
									(g) Farming stock.....			10	0	0
									(h) Growing crops and tenant right.....					
									(i) Furniture.....					
									(j) Life Policies.....					
									(k) Stocks and shares.....					
									(l) In visionary or other interests under wills.....					
1,000	0	0	Creditors partly secured, as per list (C).....	1,000	0				(m) Other property, viz.—			1,000	0	0
			Less estimated value of securities.....	500	0				30,000 fully paid £1 shares in the Ephemeral Gold Reduction Company, Ltd.					
			Liabilities on bills discounted other than debtor's own acceptances for value, as per list (D), viz.—											
									Total as per list (H).....			1,011	5	6

On Accommodation Bills, as drawer, acceptor, or indorser.....£1,000 0 0				
On other bills, as drawer or indorser	£			
	£1,000 0 0			
Of which it is expected will rank against the estate for dividend		1,000	0	0
Contingent or other liabilities as per list (B).....	£			
Of which it is expected will rank against the estate for dividend				
Creditors for rent, etc., recoverable by distress as per list (F).....	£			
Creditors for rates, taxes, wages, etc., payable in full, as per list (G)	100 0 0			
Sheriff's charges payable under sec. 11 of the Bankruptcy Act, 1890, estimated at				
Deducted contra	£			
	100 0 0			
				£
				16,550 0 0

Book debts, as per list (I), viz.— Good				
Don'tful	£			
Bad	5,000 0 0			
	4,000 0 0			
	£10,000 0 0			
Estimated to produce				1,000 0 0
Bills of Exchange or other similar securities, on hand, as per list (J)	£			
Estimated to produce				
Surplus from securities in the hands of creditors fully secured (per contra)				50 0 0
				2,111 5 6
Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's charges, etc. (per contra)	£			
				100 0 0
				2,011 5 6
				14,598 14 6
Deficiency explained in statement (K).....	£			16,550 0 0

I, Artemus Debtor, of 1998, Old Broad Street, London, E.C., in the County of London, make oath and say, that the above statement and the several lists herunto annexed marked A, B, C, D, E, F, G, H, I, J and K are to the best of my knowledge and belief a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me,

Signature A. DEBTOR.

A Commissioner for Oaths.

* High Court of Justice or the County Court of _____, holden at _____.

M

DEFICIENCY (OR SURPLUS) ACCOUNT

£	s.	d.	£	s.	d.	£	s.	d.
Excess of assets over liabilities on the 1st day of January, 19.. (if any).....			10,065	0	0	Excess of liabilities over assets on the 1st day of 19 (if any).....		
Net profit (if any) arising from carrying on business from the day of .., 19, to date of Receiving Order, after deducting usual trade expenses.....						Net loss (if any) arising from carrying on business from the day of .., 19, to date of Receiving Order, after charging against profits the usual trade expenses.....		
Income or profit from other sources (if any) since the 1st day of January, 19..			1,350	10	9	Bad debts (if any) as per Schedule "I" ...		
Gifts from relations and others						Depreciation of Stock in Trade.		
Deficiency as per Statement of Affairs...			14,538	14	6	Depreciation of Machinery		
						Depreciation of Trade Fixtures, Fittings, etc.		
						Expenses incurred since the 1st day of January, 19.., other than usual trade expenses viz. household and personal expenses of self and wife and two children.....		
						Other losses and expenses (if any)—speculations		
						Losses through Stock Exchange		
						Losses through betting.....		
						Surplus as per statement of affairs		
Total amount to be accounted for			£ 25,954	5	3	Total amount accounted for	£ 25,954	5

Signature A. DEBTOR.

Dated January 3, 19...

The most common form of Deed of Arrangement is one whereby the debtor transfers all his property to a trustee for the benefit of the creditors generally, in consideration of their releasing him from the debts he owes to them; the trustee under the deed being directed to realize the estate and to distribute the product among the creditors *pro rata* according to their claims. The deed is usually made between the debtor, one or more creditors, and a trustee for the latter, the trustee appointed being usually a professional accountant. As stated above, the execution of a deed of arrangement formerly constituted an "act of bankruptcy"; and the contingency that a petition, which would nullify the proceedings under the deed, might be presented by a non-assenting creditor at any time within three months of its execution, almost invariably delayed the distribution of the assets. The filing of a statutory certificate that due assent to the deed has been obtained under the Act of 1914 removes this cause for delay and will greatly facilitate proceedings under such deeds. When filing the statutory declaration with the Registrar of Bills of Sale that the requisite majority of creditors has assented to the deed, "secured" creditors are reckoned for value for the balance of their debts after deducting the estimated value of the securities held by them. Creditors for less than £10 are reckoned in the "majority in number," but not in the "majority in value." Failure to obtain the statutory "assent" renders the deed void.

A Deed of Arrangement is frequently put forward as a proposal by an insolvent debtor at a meeting of his creditors convened by him for the purpose of laying his position before them. From the point of view of the debtor a Deed of Arrangement is preferable to bankruptcy proceedings, as it avoids the publicity consequent upon the latter; from the creditors' point of view a "private arrangement" usually produces larger dividends within

creditors generally; (b) made a fraudulent assignment of his property or any part thereof; (c) made a conveyance amounting to a "fraudulent preference"; (d) having, with intent to defeat or delay his creditors, departed out of England, or being out remained out, or absented himself, or begun to keep house; (e) suffered execution on his goods, after they have been either sold or held by the sheriff for twenty-one days; (f) filed a declaration of his inability to pay his debts or presented a Bankruptcy Petition against himself; (g) neglected to pay or secure a judgment debt after service of a "Bankruptcy notice"; (h) given notice to any creditor of suspension of payment.

a shorter time than under the more cumbersome and costly official proceedings in bankruptcy.

Creditors must assent to the deed by actual execution, or by sending a duly witnessed "letter of assent" to the Trustee. Prior to the new Act the supply of goods to the Trustee, or a similar act, was held to be an "assent."

Apart from a deed which contemplates immediate realization and distribution other varieties of Deeds of Arrangement are met with—*e.g.* (1) an arrangement whereby the debtor's business is to be continued by a committee of his creditors on behalf of the creditors generally; (2) an arrangement whereunder the debtor is to continue carrying on his business subject to the supervision of a committee of creditors.

No official form of Statement of Affairs for submission to creditors is prescribed in the case of a Deed of Arrangement, although if a meeting of creditors is being held to consider the terms of a suggested Deed of Arrangement, a Statement of Affairs is almost invariably laid before the creditors who attend. The forms adopted usually follow the lines employed in bankruptcy proceedings, minus the official verbiage of the latter. Under the 1914 Act trustees under Deeds of Arrangement must give security in the manner prescribed unless excused by a majority in number and value of the creditors, and must open a separate banking account for the estate of the debtor, and must submit accounts to audit by the Board of Trade if a majority, in number and value, of the creditors so desire. Every six months a Statement of Accounts, in the prescribed form, must be sent to the creditors, and filed with the Board of Trade.

✓ RECEIPTS AND PAYMENTS ACCOUNTS

Many institutions and societies whose monetary transactions are of a benevolent or non-trading nature compile and publish their periodical financial statements in the form of a Receipts and Payments Account.

A **Receipts and Payments Account** is a statement dealing with *cash transactions only*. The account may be briefly described as being a condensed summary of the Cash Book, containing, on the Debit (Receipts) side, the actual money received during the period under review, and on the Credit (Payments) side, the cash actually disbursed during the same period, analyzed under appropriate headings. As a matter of course, a statement of

this character must commence and close with the initial and final balance of cash in hand, at the beginning and close respectively of the period to which the statement relates.

Financial statements of this type are most frequently met with in connection with clubs, literary or benevolent institutions, and similar undertakings. In these cases the funds are usually entrusted to an "honorary treasurer," and, when such is the fact, the account is most appropriately headed as follows—

Alfred Barrow, Esq.,

Treasurer,

in account with

The Blackheath Common Literary Society

for the year ended December 31, 1909.

As a matter of actual experience it is unfortunately the fact that the terms "Receipts and Payments Account" and "Income and Expenditure Account" are frequently regarded as being synonymous, whereas they are essentially different in character and result, inasmuch as an Income and Expenditure Account, as will be explained hereafter, deals with the total income and expenditure for the period covered by the account *irrespective of whether such income and expenditure has been received and paid or not.*

It is not an uncommon experience, moreover, to find the term Receipts and Payments Account applied to statements wherein "Capital" and "Revenue" receipts and payments are combined in one and the same account.

It will be unnecessary to point out to the student that, in such cases, the account should be strictly confined to the revenue items (in the form of an Income and Expenditure Account), a proper Balance Sheet being also presented in order to record the capital transactions.

It will sometimes be the fact that a Receipts and Payments Account does actually represent the income and expenditure for the period dealt with, but this coincidence must not mislead the student into wrongly designating such a statement as an "Income and Expenditure Account." An account of this character is merely a summary of the Cash Book, and the items therein appear upon the same sides as those upon which they would be recorded in the Cash Book.

INCOME AND EXPENDITURE ACCOUNTS 431

In cases where a Receipts and Payments Account efficiently meets the book-keeping requirements, it is generally economical and advantageous to employ a Columnar Cash Book, in the analysis columns of which the final Receipts and Payments Account is being gradually compiled.

An example of a simple Receipts and Payments Account is given on page 430.

INCOME AND EXPENDITURE ACCOUNTS ✓

(Revenue Accounts)

It is always preferable, when possible, to publish the accounts of institutions of the nature described in the preceding pages in a form which shows the whole of the income accruing to the society for the period covered by the account, irrespective of whether such income has been received or not, together with the whole of the expenditure properly chargeable to the same period, irrespective of whether such expenditure has actually been paid, or is still outstanding. An account which fulfils these requirements is termed an **Income and Expenditure Account**, and differs essentially from a Receipts and Payments Account as previously described.

All items of income are shown on the credit side of the Income and Expenditure Account, whilst the expenditure appears on the debit side, just as is the case in connection with the items composing a Profit and Loss Account, the two accounts being of precisely similar nature, although prepared to meet the needs of undertakings of a different character.

The Income and Expenditure Account should be accompanied by a Balance Sheet wherein the Assets and Liabilities of the undertaking are set out in the ordinary way.

The balance of the Income and Expenditure Account must be shown in the Balance Sheet, and represents the surplus or deficiency, as the case may be, as at the date upon which the Balance Sheet has been prepared.

The student will have gathered from the foregoing remarks that the undermentioned are the essential distinctions which exist as between the two accounts—

- (a) A Receipts and Payments Account deals with cash *actually received and disbursed*, and is a

ROYAL SAILORS' RESTS.

MISS WESTON'S MISSION AND TEMPERANCE WORK
Income and Expenditure Account for the Year ended June 30, 1908

	£.	s.	d.		£.	s.	d.
To Stock of Stationery, etc., June 30, 1907.....	336	3	1	By Subscriptions and Donations.....	12,099	5	10
" Printing, Stationery, Advertising, and Travelling expenses, June 30, 1907.....	1,597	5	9	" Admission Fees to Halls and Contents of Visitors' Boxes.....	210	5	3
" Salaries of Clerical Staff, Office Expenses, Carriage and Incidentals.....	1,610	17	4	" Receipts at Sailors' Wives' Meetings.....	710	16	7
" Monthly Letters—cost of Printing and Distributing.....	671	11	2	" Sundry Receipts.....	168	13	11
" Royal Naval Temperance Society—Books, Pam- phlets and Periodicals.....	2,684	9	10	" <i>Ashore and Afloat</i> — Sales.....			
" Salaries and Expenses of Missionaries and Workers.....	3,191	15	3	Stock on hand, June 30, 1908.....	£2,421	1	5
" Royalties, Lighting and Cleaning Halls.....	282	5	7	Stock of Books, Pamphlets, Stationery, etc., on hand, June 30, 1908.....	2,492	2	1
" Entertainments—Band Expenses, Magic Lan- terns, Cinematograph and Photography.....	1,259	12	9	" Balance carried to General Income and Expen- diture Account.....	376	0	2
" Teas, Sailors' Wives' Meetings, Workrooms, Girls' Clubs, and Boys' Brigade.....	1,145	7	1		114	0	11
" Special Relief granted.....	1,183	2	3				
" Subscriptions to Foreign Sailors' Rests and Hospitals.....	346	14	7				
" <i>Ashore and Afloat</i> — Stock on hand, June 30, 1907.....							
Cost of Printing and Distributing.....	1,823	0	1				
	£16,171	4	9		£16,171	4	9

condensed summary of the Cash Book and nothing more.

- (b) An Income and Expenditure Account deals with the whole of the income and expenditure for the period, *irrespective of whether such income and expenditure has actually been received, and paid or not*, and in character approximates to the Profit and Loss Account employed in a trading concern.

An example of an Income and Expenditure Account is appended. This account forms one of a set of six similar statements, dealing with various branches of the work, and is accompanied by a Balance Sheet showing the financial position of the institution as on the closing date.

EXERCISES.

20A.

A. Wilson of London and B. Morris of Rio de Janeiro embark in a joint consignment of Manchester goods. Profits are to be shared equally between them. A. Wilson is to purchase in England and pay for the goods consigned, and is to draw upon B. Morris at sight for their invoice price (but not in respect of any disbursements).

A. Wilson consequently bought on January 1, 1909, Manchester goods to the value of £1,050, paying cash therefor, and disbursed on January 6, freight and shipping charges, £105 10s.; insurance, £4; packing £4 15s. On the same date he drew upon B. Morris for £1,050 at sight as agreed, and sold the Bill to the London and Brazilian Bank, Ltd., for £1,039 10s., the discount is to be borne jointly between the parties to the venture.

B. Morris received the goods on February 1, 1909, and disbursed on that date landing charges, £5 3s. 2d., and Government duty, £121 4s. 6d. He sold the goods for cash on February 3, 1909, for £1,726 4s. 2d., and honoured A. Wilson's draft the same day.

On February 4 B. Morris prepared (from his own books and from the statements regarding the adventure rendered to him by A. Wilson) a combined statement regarding the transaction, and remitted to A. Wilson a cheque on London for the amount due to him.

Show the entries relating to the above venture as they would appear in either party's books, as well as a combined statement showing the result of the whole transaction.

20B.

A. B. is adjudged a bankrupt on September 1, 1908. His position at that date, as shown by his books, was as follows—

	£
(1) Unsecured creditors	3,000
(2) Secured creditors (Bankers), secured by deposit of Title Deeds relating to House Property (the property itself being estimated as worth its book value, viz. £1,500)	1,200

	£
(3) Preferential creditors for rates and taxes	185
(4) Cash at Bank	100
(5) Book Debts	2,000
(6) House Property (pledged with Bankers as above), valued at cost	1,500
(7) Furniture, valued at cost	100
(8) Investments, 1,000 £1 shares in the Amalgamated Construction Co., Ltd., valued at cost	400
6,000 £1 Deferred Shares in the United Aviation Corporation, Ltd., valued at cost	1,075

Further inquiry reveals the following facts—

Item (5). Of the £2,000 Book Debts £100 are “good,” and the balance must be treated as “doubtful” and estimated to produce £500.

Items (2) and (6). The House Property will only realize £1,000, out of which the Banker’s claim has to be satisfied.

Item (8). The shares in the Amalgamated Construction Co., Ltd., may be taken as being worth 1s. each, and those in the United Aviation Co., Ltd., as being worth 1d. each. As regards his Deficiency Account, A. B. acknowledges that, two years prior to his bankruptcy, he was possessed of a capital of £10,000. His only income since that date has consisted of sundry director’s fees amounting to £200. He acknowledges having spent, during the two years, £3,000 per annum on household expenses, and £2,000 in speculation, and has lost £1,400 through bad and doubtful loans (as above), and £1,410 spent in promoting a patent bottle company which proved a failure. In addition to these matters are the losses expected to arise in connection with the realization of his House Property and Investments as set out above.

From the above particulars prepare the Statement of Affairs and Deficiency Account of A. B.

20c.

The Maes-y-Gwyn Colliery Co., Ltd., took, on January 1, 1905, upon lease from the landlord (Evan Ap Thomas, Esq., J.P.) a coal-bearing area upon the following terms: viz. a minimum rent of £300 merging into a Royalty of 6d. per ton, with power to recoup “short workings” over the first three years of the lease.

The annual output of the colliery was as follows—

1905	5,000 tons
1906	11,000 „
1907	14,000 „
1908	20,000 „

Show the Landlord’s “Royalties” and “Short Workings” Accounts as they would appear in the Company’s books.

20d.

1. Explain what is meant by a Joint Adventure and how the transactions arising out of such an adventure are recorded.

2. What is the difference between a “Bankruptcy” and a “Private Arrangement” made by an insolvent debtor? Sketch briefly the main characteristics of each procedure.

3. Upon what principle is a Statement of Affairs prepared, and wherein does it differ from a Balance Sheet?

4. What are "Cost" accounts? Explain briefly the main principles underlying them.

5. Explain the following terms—

Royalties, Minimum Rent, "Short Workings," Receiving Order, Deficiency Account, Official Receiver, Joint Consignment.

6. What is Goodwill, and how is its value to be arrived at?

7. What is meant by the Double Account System, to what classes of undertakings is it usually applied, and what useful purpose does it serve?

8. "The Double Account System frequently tends to produce a condition of financial unsoundness in certain respects, and sometimes affects the equilibrium of annual profits over a series of years." Discuss and explain this statement.

Answers.—

20A. Profit on the joint adventure = £425 1s. 6d., divisible equally between the parties.

Cheque remitted by B. Morris to A. Wilson to close the venture amounts to £337 5s. 9d.

20B. Deficiency, £2,510.

Totals of Deficiency Account, £12,710.

20C. 1905. Royalty, £125; Paid to Landlord, £300.

1906. Royalty, £275; Paid to Landlord, £300.

*1907. Royalty, £350; Paid to Landlord, £300.

1908. Royalty, £500; Paid to Landlord, £500.

* Note £150 irrecoverable "short workings" written off December 31, 1907.

CHAPTER XXI

THE DIVIDEND AND INCOME TAX ACCOUNTS OF LIMITED COMPANIES

THE entries relating to the payment of dividends by a Limited Company appear to present difficulties to some students, not because of any complexity in the entries themselves, but because they frequently involve Income Tax adjustments.

Chapter XVII of the present volume contains a brief sketch of the British Income Tax System, and particular attention is there called to the cardinal principle of the existing system, viz. that all income, whatever its nature, shall, as far as possible, be taxed *at its source*. Such a rule obviously simplifies the collection of the tax, and renders evasion more difficult. Companies, and similar corporate bodies, are, of course, merely the legal embodiments of the shareholders composing them. The property and profits of the Company are the property and profits of the shareholders. In order to carry out the principle of taxing income at its source, the Inland Revenue authorities, in the case of a Limited Company, make their assessment for Income Tax on the profits of the Company as a whole. It is upon this assessment that the Company, and not its individual shareholders, pays tax.

Having paid tax on the whole of its profits in the statutory manner, it is open to the Company to recover the tax on that portion of its profits distributed amongst its shareholders by the simple process of deducting the tax at the current rate from the dividend paid to them. If it adopts this course, the result is that the Company ultimately bears only the Income Tax on that portion of its profits withheld from division among its shareholders. A Company *must* thus recoup itself for Income Tax paid in the case of its preference, guaranteed, and other classes of shares entitled to a preferential dividend at a fixed rate. It *may or may not* adopt this course with reference to its ordinary or deferred shareholders, according to its discretion, or the provisions of its articles of association. The reason for this distinction is, that, when a Company pays Income Tax on its profits, as a whole, it, in

effect, pays the tax due from each shareholder in respect of his share of the profits. The tax having been paid on the total profits no further Tax is payable by the shareholder, unless his *total* income is liable to super-tax. This is so whether the Company has, or has not in a particular case, deducted tax from the dividend. It is clear that, if the tax is not deducted from the *fixed* preferential dividends, the sums paid to the preferential shareholders will amount to more than the fixed rate to which they are entitled. Thus if dividends due on 5 per cent. preference shares are paid without deduction of the tax, the actual rate will not be 5 per cent., but 5 per cent. plus the tax, which at, say, 6s. 0d. in the £, makes the dividend £7 2s. 9d. per cent. This would be unfair to the shareholders entitled to the balance of the profits and it is therefore illegal. Dividends on ordinary or other shares entitled to the balance of any profits which may remain after the payment of the fixed dividends may, of course, be paid without deduction of the tax; the payment of a dividend "free of tax," as it is termed, merely amounts in such cases to the payment of a slightly higher rate of dividend than is apparent at first sight. The phrase "free of tax," although in common use, is not very happy, as all income is liable to tax in one form or another.

When a Company pays tax on its profits it must debit the payment to the Income Tax Account. If it pays any dividends *less tax* (as it is compelled to do if the dividends are preferential), it must show the dividend in its Profit and Loss Account as having been paid for its *gross* amount without any deduction. It must treat the amount of tax deducted as a recovery from its shareholders, and apply the amount in reduction of the previous debit to "Income Tax Account," for the tax paid to the Revenue authorities.

If a Company declares a dividend on its ordinary or deferred stock at a given rate *without* deduction of Income Tax (*i. e.* "free of tax"), the shareholder receives the same amount of money as he would receive if a dividend were declared at a correspondingly higher rate *with* deduction of Income Tax. Notwithstanding, however, that the actual payment to the shareholder is the same in both these cases, the method of their treatment for book-keeping purposes differs. If a dividend is declared "free of tax" the total amount paid to the shareholders is

debited to the Profit and Loss Account; and, as far as that dividend is concerned, no entries whatever are made in respect of Income Tax. If, on the other hand, a dividend is declared "less tax" entries must be passed to record the deduction for Income Tax according to the rules previously set forth.

The necessary entries to record the payment of dividends by a Company are as follows—

1. In the case of a dividend paid "less tax." (a) *Debit* the Profit and Loss Account, and *credit* the Dividend Account, with the gross amount of the dividend paid. (b) *Debit* the Dividend Account, and *credit* Bank, with the amount of the dividend cheques sent to the shareholders. (c) *Debit* the Dividend Account, and *credit* the Income Tax Account, with the total Income Tax deducted from the shareholders' dividends.
2. In the case of a dividend paid "free of tax." (a) *Debit* the Profit and Loss Account and *credit* the Dividend Account with the gross amount of the dividend paid. (b) *Debit* the Dividend Account, and *credit* Bank with the dividend cheques sent to the shareholders.

It is usually found more convenient to transfer the amount necessary to meet the payment of a dividend from the Company's general banking account to a separate "Dividend Account" opened at the Bank. The shareholders' dividend warrants are then drawn on the "Dividend Account." Separate Dividend Accounts are frequently used for each successive dividend, and for each class of stock or shares issued. It usually happens that some of the dividend warrants sent out are not presented within a reasonable time, and some of them may never be presented at all. After a reasonable time has elapsed, the amount of the unrepresented warrants can be transferred from the separate Dividend Accounts into one general Banking Account for unclaimed dividends, the amount being at the same time written back in the Company's books as a liability. After the expiration of twenty years a Company could usually plead the Statute of Limitations if called upon to pay a "stale" dividend warrant, but few Companies would take advantage of this course if satisfied as to the *bona fides* of the claim. Dividends which are not likely to be claimed are

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frequently credited to Profit and Loss Account, or transferred to Reserve Account.

In large Companies, particularly in cases where several classes of shares have been issued, it is usual to keep a **Dividend Register or Book** in which details of the dividends paid and the tax deductions therefrom are recorded. A specimen of this book is given on page 440.

The following is a facsimile of a dividend warrant—

THIS PORTION TO BE RETAINED BY THE PROPRIETOR

THE STRAND HOTEL LIMITED,

No. 2499

DIVIDEND

On £7 per cent. Participating Preferred Ordinary Shares

For Six Months ending 30th September, 1910.

To _____

Annexed I beg to hand you Warrant in payment of Dividend at the rate of £11 per cent.

per annum on _____ of the above Shares amounting to £ s d

Less Income Tax at 1s. 6d. in the £ £ s d

I hereby certify that the Income Tax on the amount set forth in this statement, will be paid by the Company to the proper officer for the receipt of Taxes. This statement will be accepted by the Inland Revenue as proof of payment of the Tax in claiming exemption from or return of Income Tax.

5 BURLEIGH STREET,
STRAND, W.C.

1st December, 1910.

H. F. JOYNER,

SECRETARY.

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

THE STRAND HOTEL LIMITED,

5 BURLEIGH STREET, STRAND, W.C.

£7 per cent. Participating Preferred Ordinary Share Dividend Account.

No. 2499

2nd December, 1910.

To PARR'S BANK, LIMITED,

CHANCERY CROSS BRANCH, LONDON, W.C.

Pay _____ or Order

the sum of _____

£ : :

For THE STRAND HOTEL LTD.



NOT NEGOTIABLE

Treasurer.

M

Payee's Signature _____

The cheque forming the bottom half of the warrant is detached by the recipient, and paid into the Bank in the ordinary way. The common practice is to provide

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ample will serve as an illustration of the rules described in this chapter.

The South Western Distribution Co., Ltd., had, as on December 31, 1910, a balance of undivided profits amounting to £10,500. The Company resolved, on February 4, 1911, (a) to place £1,000 to Reserve, raising it to £5,000, (b) to pay a full dividend for the year 1910 on its £80,000 5 per cent. Preference Stock, less tax, and (c) to pay a dividend of 5 per cent., free of tax, on its £80,000 Ordinary Stock. The balance of profit was to be carried forward to the following year. Show the entries in the Company's books relating to these transactions, assuming the rate of Income Tax to be 1*s.* 2*d.* in the £.

Dr.		PROFIT AND LOSS ACCOUNT				Cr.		
1911.		£	s.	d.	1911.	£	s.	d.
Feb. 4	To Transfer to Reserve Account	J.	1,000	0 0	Jan. 2	By Balance brought forward	✓	10,500 0 0
" 4	" " Transfer to Preference Share Dividend Account	J.	4,000	0 0				
" 4	" " Transfer to Ordinary Share Dividend Account	J.	4,000	0 0				
" 4	" " Balance, being undivided Profit carried forward	✓	1,500	0 0				
		£	10,500	0 0			£	10,500 0 0
					1911.			
					Feb. 6	By Balance brought forward	✓	1,500 0 0

Dr.		RESERVE ACCOUNT				Cr.				
1911.		£	s.	d.	1911.	£	s.	d.		
Feb. 4	To Balance carried forward....	5,000	0	0	Jan. 2	By Balance brought forward	✓	4,000	0	0
					Feb. 4	„ Transfer from Profit and Loss Account.....	J.	1,000	0	0
		£	5,000	0	0		£	5,000	0	0
					1911.					
					Feb. 6	By Balance brought forward.....	✓	5,000	0	0

**PREFERENCE SHARE DIVIDEND
ACCOUNT**

Dr.				Cr.			
1911.		£	s. d.	1911.		£	s. d.
Feb. 4	To Transfer to Income Tax Account for Income Tax deducted @ 1s. 2d. per £ from Dividends paid...	J.	233 6 8	Feb. 4	By Transfer from Profit and Loss Account	J.	4,000 0 0
" 4	" Cash, for total of Dividend Warrants sent to Shareholders	C.B.	3,766 13 4				
		£	4,000 0 0			£	4,000 0 0

Dr. ORDINARY SHARE DIVIDEND ACCOUNT Cr.

1911.		£	s. d.	1911.		£	s. d.
Feb. 4	To Cash, for total of Dividend Warrants sent to Shareholders	C.B.	4,000 0 0	Feb. 4	By Transfer from Profit and Loss Account	J.	4,000 0 0

Dr. INCOME TAX ACCOUNT * Cr.

		£	s. d.	1911.		£	s. d.
				Feb. 4	By Transfer from Preference Share Dividend Account	J.	233 6 8

* The credit entry in this Account will reduce the next debit for Income Tax paid to the Inland Revenue authorities.

Some Companies, for *financial reasons*, occasionally pay a dividend to their shareholders in the form of additional fully paid shares instead of in cash. In such

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cases the profits earned are applied in paying up the amount due on the shares thus issued, either in part or in full. The necessary book-keeping entries are made on lines identical with those set forth above, except that the Share Capital Account (and the **Premium on Shares Account**, if the shares are issued at a premium) is credited in place of the Cash Account. The following is an example of the procedure in such a case.

The Lough Neagh Steam Navigation Co., Ltd., with an authorized capital of £150,000, and an issued capital of £100,000 in £1 shares (the current market price of which is 2½) decides on January 9, 1911, to pay a dividend to its shareholders in the form of one £1 share, taken at a price of £2, for every 50 £1 shares held. The balance of profit available prior to this transaction, amounts to £8,000. Show these transactions in the Company's Ledger.

Dr. SHARE CAPITAL ACCOUNT				Cr.			
1911.		£	s. d.	1911.		£	s. d.
Jan. 10	To Balance carried forward (102,000 £1 Shares) ...	✓ 102,000	0 0	Jan. 9	By Balance brought forward.....	✓ 100,000	0 0
				" 9	„ Transfer from Dividend Account, 2,000 Shares issued as fully paid in payment of Dividend..	J. 2,000	0 0
		£ 102,000	0 0			£ 102,000	0 0
				1911.			
				Jan. 10	By Balance brought forward.....	✓ 102,000	0 0

Dr. PREMIUM ON SHARES ACCOUNT				Cr.			
		£	s. d.	1911.		£	s. d.
				Jan. 9	By Premium on 2,000 £1 Shares issued @ £2 each in payment of Dividend.....	J. 2,000	0 0

Dr.				DIVIDEND ACCOUNT				Cr.			
1911.		£	s.	d.	1911.		£	s.	d.		
Jan. 9	To Transfer to Share Capital Account (2,000 Shares of £1 each	2,000	0	0	Jan. 9	By Transfer from Profit and Loss Account	4,000	0	0		
" 9	" Transfer to Premium on Shares Account (for Premium of £1 per Share on 2,000 Shares of £1 each, issued @ £2 per Share)	2,000	0	0							
		£ 4,000	0	0			£ 4,000	0	0		

Dr.				PROFIT AND LOSS ACCOUNT				Cr.			
1911.		£	s.	d.	1911.		£	s.	d.		
Jan. 9	To Transfer to Dividend Account.....	4,000	0	0	Jan. 9	By Balance brought forward	8,000	0	0		
" 9	„ Balance carried forward....	4,000	0	0							
		8,000	0	0			8,000	0	0		
					1911.						
					Jan. 10	By Balance brought forward	4,000	0	0		

CHAPTER XXII

INVESTMENT ACCOUNTS, ETC.

(See also the Book-keeper's Compendium, pp. 674 *et seq.*)

INVESTMENTS dealt in on the London Stock Exchange are, as a general rule, of two classes, viz.—

Class 1. The **Public Loans** issued by various British and Foreign Governments and Municipalities, and the **Borrowings** of various important trading corporations secured, in most cases, by mortgage.

Class 2. The **Stock or Shares**, forming the proprietors' capital, of various trading and financial corporations.

Securities comprised in Class 1 usually yield a fixed annual rate of interest. In many cases they are redeemable at fixed dates; in other cases (*e.g.* Consols) only at the option of the borrower, and *after* the expiration of a stated period. Again, sometimes, securities of this class are not redeemable at all—the loans being in effect perpetual, and occasionally they are so described.

Securities comprised in Class 2 are usually entitled to either (a) a fixed rate of dividend preferentially to other securities issued by the Company, in which case they are usually called **Preference Stocks or Shares**, or (b) the whole of the profits of the Company, after the fixed preferential dividends and charges have been met. In the latter case they are generally styled **Ordinary or Deferred Shares**. In the case of all securities in Class 2, whether preferential as regards dividend or not, the holder's income from them is *contingent* upon the profit earned by the Company. But the securities mentioned in Class 1 are loans, and the annual interest on them is payable by the borrower *in any event*.

The market prices of both classes of securities fluctuate constantly according to the demands of trade for ready money, the disturbance of the political situation, the

reputed solvency or prosperity of the nation, or of the body issuing the securities, and other similar factors.

The following description of an Investment Account is more particularly applicable to an investment bearing a fixed rate of interest. The ordinary or deferred shares of trading companies and other investments yielding a fluctuating dividend are, however, treated upon exactly similar lines, except for the fact that calculations as to accrued dividends can only be made after the income has actually been declared payable. It is obvious that as the rate of the dividend is uncertain, the precise amount of the income outstanding at any given date cannot be calculated in advance.

When an investor purchases a Stock Exchange security he usually acquires, in exchange for his money, a certain share or fraction of the nominal capital of some particular issue of loan or stock. The amount of the nominal capital acquired will usually differ from the amount of money the investor has had to pay for it; the two amounts can only coincide in the case of securities purchased at their exact nominal value. For example, an investor may purchase $2\frac{1}{2}$ per cent. Consols at $78\frac{1}{2}$, *i.e.* for every £78 10s. (ignoring brokerage) he will acquire £100 nominal "Consolidated $2\frac{1}{2}$ per cent. Stock." It is therefore necessary to include in an Investment Account a set of money columns, on each side, to contain the *nominal* amount of each purchase and sale.

In the case of almost all securities dealt in on the London Stock Exchange the market price, except when it is quoted ex dividend (*i.e.* excluding the current dividend), includes any interest or dividend which may have accrued on the stock since the last date at which either was paid; that is to say the securities are dealt in cum dividend (together with the current dividend). This accrued interest is, of course, added to, and swells the price of the stock, which is therefore quoted at a higher rate than it would be if no question of accrued interest or dividend were involved. It is also the common experience that whenever a payment of interest or dividend takes place on any particular stock the market price falls by an amount equal to the amount of the dividend paid on it. For example, if the investor purchases £100 Consols at $78\frac{1}{2}$ on November 2, 1910, he receives in exchange for his money not only £100 nominal stock, but also the right to the two months' interest on

£100 at $2\frac{1}{2}$ per cent. already accrued on the stock since it was last marked "ex dividend." The interest for these two months will not, of course, come to him as a separate payment, but will form part of the full three months interest to be marked off the stock on December 2, 1910, and paid on January 5, 1911.* The purchaser in this case would make his calculation in the following form—

	£	s.	d.
Price paid for £100 Consols at $78\frac{1}{2}$,			
plus 2s. 6d. brokerage and 6d.			
stamp	£78	13	0
Divisible as follows—			
	£	s.	d.
Accrued dividend, 2 months on £100			
at $2\frac{1}{2}$ per cent. less tax	0	7	10
True cost of £100 Consols	78	5	2
Total disbursement as above	£78	13	0

Similarly, in dealing with the cash realized by an investment sold *cum div.*, the seller should deal with that portion of the purchase price which represents accrued interest as income for the period.

In addition to the usual sets of money columns for recording the cost of the investment, and the nominal amount of each purchase or sale, it is customary to provide a third set of money columns on each side of an Investment Account for the purpose of dealing with the interest receivable on the investment, and for any adjustments which may be necessary. The actual ruling of the account is shown in the subjoined example.

The rules for working such an account are as follows—

1. On the purchase of any security ascertain how much of the purchase price represents (a) accrued interest, and how much of it represents (b) the true cost of the investment. Enter the former in the "Interest" column, and the latter in the "Principal" column, both entries being of course on the debit side. Enter the nominal amount of the stock purchased in the stock column on the debit side.

* The Bank of England strikes the balance of stocks inscribed with it on or about one month before the date on which the dividend is payable. Thereafter these stocks are transferable "ex dividend."

2. When dividends are received, credit them in the interest column on the credit side.

3. At the end of any stated period (*e.g.* at the end of each year) transfer to a "Dividends Account," or direct to the Revenue Account, the balance of the interest columns (Dr. and Cr.) in the Investment Account. This balance should be the exact amount of the income for the year, if the investment has been held for a whole year, or for the broken portion of a year if it has been held for a shorter period. Any interest which has accrued but is not yet payable at the date of any given balancing may be brought down as a reserve in the interest columns on the debit side of the account in order that the transfer to Revenue Account may represent the full interest on the investment for the period.

4. On the sale of a security, ascertain what portion of the proceeds represents accrued interest, and what portion the principal, and credit these two amounts in the credit Interest and Principal columns respectively. Any balance remaining in the "principal" columns represents Capital profit or loss on the transaction, according as it is a credit or debit balance.

The following example will illustrate the above rules more clearly.

Example.—I bought on September 30, 1908, £1,000 Japanese Government 4 per cent. Sterling Bonds at 85, plus 2s. 6d. per cent. brokerage, and 9s. stamps, making the total cost £851 14s. I held these bonds until March 31, 1910, when I sold them for £910 3s. 6d. net. Show my Investment Account for this period. Interest is paid on these bonds on June 30, and December 31 in each year. Assume that Income Tax was payable at the rate of 1s. in the £ throughout the period to which the account refers (see page 449).

The *valuation*, for Balance Sheet purposes, of the investments held by a trader or a company opens up questions of great interest to accountants, but from the student's point of view the essential thing to consider is the purpose for which the investments are held. If they represent the Reserve Fund, or are held in order to strengthen the general financial position of the undertaking, they should be valued at *cost price*. Temporary market fluctuations in the values of investments held for these purposes cannot be recognized, and need not be dealt with. But if any *permanent* depreciation has taken place it should be provided for. In cases where the purchase and sale of investments form the principal business, or a considerable

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JAPANESE GOVERNMENT 4 % STERLING LOAN OF 1899. Dividends payable June 30, Dec. 31. Principal repayable 1954, or at par after Jan. 1, 1909.

Dr.

Cr.

Date.	Particulars.	Ratio.	Nominal Amount.	Interest.	Principal.	Date.	Particulars.	Ratio.	Nominal Amount.	Interest.	Principal.
			£	s.	d.				£	s.	d.
1908. Sept. 30	To cost at 85 plus brokerage and stamps, of 10 £100 Bonds Nos. XY 924610/324619	C.B.	1,000 0 0	10 0	842 4 0	1908. Dec. 31	By 6 months' interest at 4% p.a., £20, less Income Tax at 1/- in £1..	C.B.	1,000 0 0	19 0 0	842 4 0
Dec. 31	" Transfer to Revenue Account..	J.		9 10 0		" 31	" Balance carried down.....	✓			
1909. Jan. 1	To Balance brought down....	£	1,000 0 0	£19 0 0	£842 4 0	1909. June 30	By 6 months' interest at 4% p.a., less Income Tax at 1/- in £1.....	C.B.	1,000 0 0	£19 0 0	£842 4 0
Dec. 31	" Transfer to Revenue Account.....	✓	1,000 0 0		842 4 0	Dec. 31	" Do. Do. Balance carried down.,	C.B.	1,000 0 0	19 0 0	842 4 0
1910. Jan. 1	To Balance brought down....	£	1,000 0 0	£38 0 0	£842 4 0	" 31	" Do. Do. Balance carried down.,	✓	1,000 0 0	£38 0 0	£842 4 0
Mar. 31	" Transfer to Revenue Account..	✓	1,000 0 0		842 4 0	1910. Mar. 31	By proceeds of Bonds sold for £910 32. 6d. net (at 91½ less charges)	C.B.	1,000 0 0	9 10 0	900 12 6
" 31	" Capital Account, being Profit on Sale of Investment	J.			58 9 6						
		£	1,000 0 0	£9 10 0	£900 13 6				£	1,000 0 0	£900 13 6

part of the business, investments may be regarded as stock-in-trade of the concern, and are frequently valued at the mean market price of the day. That is to say, at the average between the highest and lowest quotations given in the current official list of quotations. Where investments are held to a considerable amount it is usual at balancing dates for the company, or firm, to prepare a schedule showing, in two columns, the book value (Ledger Account Balance) of the securities and their value at the mean market price of the day. The present market value can then be readily compared with the value at which they stand in the books. Reserve Accounts to meet depreciation are created when necessary, and in the absence of such a reserve it is probable that the auditors would require the market price to be stated in a note on the Balance Sheet.

Unquoted investments, and investments for which there is no ready market, often present considerable difficulties to accountants and auditors with reference to their valuation. In unscrupulous hands they lend themselves to manipulation for the purpose of creating fictitious "paper" profits. The only rule that can be laid down with regard to such investments is that their valuation must be upon as conservative a basis as possible, and should lean to undervaluation rather than otherwise.

LIMITED PARTNERSHIPS

Bovill's Act, 1865, afterwards incorporated in the Partnership Act, 1889, first made it possible to lend money to traders in return for a share of the profits without incurring partnership risks. Loans of this nature, however, could only be made to *individuals*, and not to *firms*, and, in order to escape the risk of liability to the creditors of the business, it was necessary to avoid any act which might be construed as legal "interference" with the management of the business. In the event of insolvency the repayment of such loans was postponed until all other creditors had been satisfied.

Under the Limited Partnership Act, 1907, loans carrying a share in the profits of a business may now be advanced to *firms*, provided the transaction is duly registered with the Registrar of Joint Stock Companies.*

* A Registration fee of £2 is payable, together with a duty of 5s. per cent. on the amount of the loan. Any person may inspect the register on payment of the usual search fee of 1s.

Beyond the advantage thus afforded it is difficult to understand that there is any urgent need for the Act. The facilities offered by the registration of Private Companies are so attractive that the Limited Partnership Act has been very largely neglected. Indeed, such little use has been made of the Act that the student will be imprudent if he spends much time in committing its detail to memory. It is unlikely that he will need such knowledge, either in the examination room or in actual practice. Brief attention may, however, be given to the following salient points.

A Limited Partnership is one which consists of one or more **General Partners**, who are liable without limitation for the debts and obligations of the firm, and one or more **Limited Partners**, who contribute agreed sums as capital, and whose liability is *limited* to the amounts they contribute. No Limited Partnership may consist of more than twenty members, or, in the case of a Bank, of more than ten members.

A Limited Partner may increase his holding in the firm, but no partnership rights attach to the investment beyond the privilege, granted by section 6, to "inspect the books of the firm, examine into the state and prospects of the business," and advise the partners thereon. Limited Partners cannot withdraw the sums advanced by them during the continuance of the business; but they may assign their share in the partnership with the consent of the General Partners. "Interference" in the conduct of the business renders a Limited Partner liable, during the term of such interference, to the same risks and obligations that are attached to the General Partners. The conduct of the business is consequently in the hands of the General Partners. The Act contains other modifications of the Partnership Acts, but the above outline will be ample for the general student.

UNLIMITED LIABILITY OF DIRECTORS

The Companies Act, 1867 (§§ 4-8), subsequently re-enacted in the Companies (Consolidation) Act, 1908 (§§ 60 and 61), contains provisions in some respects similar to those of the Limited Partnership Act of 1907. Under the Acts quoted above the **Directors** and **Managers** of a Limited Liability Company have power personally to assume *unlimited liability* for the debts of the Company,

while the liability of the shareholders remains limited in the ordinary way.

These provisions are still on the Statute Book, but, so far as the author has had experience of them, they remain practically unused.

TABLE A.—THE MEMORANDUM AND ARTICLES OF
ASSOCIATION OF LIMITED COMPANIES

Several inquiries from students have reached the author as to whether candidates for book-keeping examinations are expected to be familiar with the usual details of the Memorandum and Articles of Association of Limited Companies, or to memorize the 114 clauses of Table A! It should hardly be necessary to state that any such effort would be an egregious waste of time! The framing of the Memorandum and Articles of Association of a Limited Company is strictly legal work, and questions arising out of such work would be entirely out of place except in professional examinations where Company Law is specified as a subject in the syllabus.

The **Memorandum of Association** forms the charter of the Company, and ample detail regarding its composition from the book-keeper's point of view is given on page 679 of this book.

The **Articles of Association** are subsidiary to the Memorandum and define the rights, duties, and powers of the Board of Directors and the shareholders as between themselves (see p. 661).

Table A was first attached as a schedule to the Companies Act, 1862, and subsequently, in an amended form, reappeared as Schedule I to the Companies (Consolidation) Act, 1908. The table consists of a set of 114 articles applying to such Companies as are *registered without Articles of Association*, or in cases where they are applicable and where Articles of the Company *do not exclude Table A*. Even as modified and amended the articles contained in Table A are unsuitable to most Companies, and it is therefore very unusual for a Company to be registered without special articles framed to meet its particular requirements.

CHAPTER XXIII

BANK ACCOUNTS

SOME of the salient features of Bank Accounts are dealt with in this chapter, which has been included in response to many requests.

It is intended solely as an introduction to a somewhat specialized system of Book-keeping, and where comprehensive and detailed knowledge of Bank Book-keeping is required the student is referred to those text-books dealing exclusively with the subject.

It would be difficult to over-estimate the services rendered to commerce by the present Banking system. Besides being a safe depository for cash and other valuables, the modern Bank (*a*) collects cheques and cash articles, (*b*) affords a ready medium for remitting money by means of drafts and cheques, (*c*) furnishes a convenient method of obtaining money abroad by issuing circular notes and letters of credit, (*d*) supplies traders with reliable information regarding the financial standing of other traders, (*e*) buys and sells stocks and shares for customers, (*f*) loans money on reasonable terms upon adequate security, and, generally, performs many other services of great usefulness to the commercial community.

The financial position of the leading Banks in the United Kingdom is practically beyond criticism, for, in addition to a large paid up Capital, the majority hold in reserve a still larger sum of uncalled Capital (in many cases this can only be called up in the event of liquidation) and possess a well-invested Reserve Fund which in some cases amounts to 50 per cent., or more, of the called up Capital.

The Bank of England is the premier Bank in the United Kingdom. It was instituted by letters patent in 1694, and is controlled by a Governor, Deputy-Governor, and twenty-four Directors. The Governor and Deputy-Governor are changed every two years. The issue of Bank notes, in England, is now practically confined to the Bank of England, whose powers of note issue are

defined by the *Bank Charter Act of 1844*. The Issue Department is distinct and separate from the Banking Department. Under the above Act the Bank was given power to issue notes to the extent of £14,000,000, called the *fiduciary issue*. This issue was covered by the Government debt of £11,015,100 and interest bearing securities to the value of £2,984,900. Power was also given to the Bank to issue further notes against securities to the extent of two-thirds of any issue lapsed or forfeited by a Country Bank. Through amalgamation with London Banks and other causes, many Country Banks have lost their right of issue,* and the fiduciary issue of the Bank now amounts to £18,450,000. The payment of all notes issued by the Bank in excess of this amount must be guaranteed by actual coin or bullion deposited in the issue department, subject to the proviso that the silver in the issue department must not exceed one-fourth of the gold coin and bullion. As a matter of fact no silver is held by the Bank against its note issue, the privilege having been unexercised for many years. A **Bank Return** under the terms of the Act, is published every Thursday, and appears in Friday morning's newspapers. This return constitutes the Bank's published Balance Sheet. Many great Continental National Banks, notably the Banks of France, Holland and Belgium, publish voluminous periodical reports and accounts, but the Bank of England confines itself to the weekly official return.

The student should study the form of the Bank Return given on page 663 with the explanation on pp. 663-664. Examination questions are sometimes set on the Bank Return, *e.g.*—

Question.—Make out the "Return" of the Bank of England on February 15, 1911, in both Issue and Banking Departments respectively, from the following items—

Notes issued, £54,954,750; Government Debt, £11,015,100; Government Securities, £14,830,493; other Securities (Issue), £7,434,900; other Securities (Banking), £29,305,667; Public Deposits, £13,751,475; other Deposits, £41,262,833; Notes in Reserve, £28,029,205; Coin and Bullion (both Departments), £37,496,973; Coin and Bullion (Issue), £36,504,750; the Rest, £3,560,599; Proprietors' Capital, £14,553,000; Seven day and other bills, £29,681;

* The right to issue notes is forfeited owing to the fact that such amalgamations increase the number of partners to more than six (*Bank Charter Act of 1844*). The Country Bank notes now in circulation are probably less than £1,000,000.

and give the amount of the notes in "active circulation."
—*Royal Society of Arts, 1911.*

Answer—

Issue Department.

	£		£
Notes issued . . .	54,954,750	Government Debt . . .	11,015,100
		Other Securities . . .	7,434,900
		Gold Coin and Bullion . . .	36,504,750
		Silver Bullion . . .	—
	<u>£54,954,750</u>		<u>£54,954,750</u>

Banking Department.

	£		£
Proprietors' Capital * . . .	14,553,000	Government Securities . . .	14,830,493
Rest † . . .	3,560,599	Other Securities . . .	29,305,667
Public Deposits ‡ . . .	13,751,475	Notes . . .	23,029,205
Other Deposits § . . .	41,262,833	Gold and Silver coin . . .	992,223
Seven day and other Bills || . . .	29,681		
	<u>£73,157,588</u>		<u>£73,157,588</u>

The amount of notes in active circulation is—

	£
Notes issued	54,954,750
Less Notes in Banking Department . . .	28,029,205
Notes in active circulation	<u>£26,925,545</u>

On reference to the statement of the Banking Department above the student will note that the last two items on the asset side are: Notes, £28,029,205; gold and silver coin, £992,223; a total of £29,021,428. This total is known as the **Bank of England Cash Reserve**, and is the base of our national financial system. On the date given the liabilities of the Bank, excluding proprietors' capital, were £55,043,989, so that the Cash Reserve amounted to 52·72 per cent. of the liabilities, a far higher percentage than is shown by any other Bank.

* The largest paid up Capital of any Bank in the world.

† Reserve Account and undivided profits. The amount of the Rest is never reduced below £3,000,000.

‡ National Exchequer Balances, Savings' Banks' Deposits, Deposits by the Commissioners of the National Debt, sums held for the payment of dividends on Government and other Stocks administered by the Bank.

§ Balances of Customers' Accounts, including the balances kept by the various Banks of the country.

|| Chiefly "Bank Post Bills."

The powers and functions of the Bank of England may be summarized as follows: (1) Acts as Banker to the Government. (2) Manages the issue and transfer of Consols, the National Debt, many Indian Government Stocks, Municipal Stocks, Indian Railway Stocks and some Foreign Loans. (3) Its notes are the only notes which are "legal tender" in England and Wales. (4) Must buy gold bullion from the public at £3 17s. 9d. per oz. of standard gold.* The Bank may, of course, sell gold at any price it can get, and sometimes $\frac{1}{2}$ d. or 1d. an ounce above the "Mint" price is obtained for bullion or foreign coins. (5) Holds the cash reserves of the other Banks. (6) Fixes the "Bank Rate," which is practically the official ruling rate of the value of money in this country. (7) Transacts ordinary banking business for the public.

The Banking Department of the Bank is conducted upon lines similar to other Banks, except that the most important among its customers are the Government and the other Bankers of the kingdom, and that no interest is allowed on deposits. The "other Bankers" regard the Bank of England as standing in the same relation towards them as they themselves stand towards their own customers. They keep, on current account with the Bank, such portions of their resources as they wish to have ready to hand in case of need. The Banking Department is thus the "Bankers' Bank," and British credit depends to a very great extent upon the maintenance by the Bank of a sufficiently high reserve of gold coin and bullion to meet possible demands by the "other Bankers" and the depositors generally.†

Banking business is not, perhaps, very complex in principle. It has been reduced to rules of such uniform strictness that the routine admits of very little variation. The details involved in the daily work of a Bank are, however, very voluminous, and this fact largely controls the methods of book-keeping employed.

A Banker has been defined as a "dealer in money and

* Any one taking gold to the Mint can exchange it for coined sovereigns at the rate of £3 17s. 10½d. per oz., which is called the Mint price of gold.

† "In consequence all our credit system depends on the Bank of England for its security. On the wisdom of the directors of that one joint stock company it depends whether *England shall be solvent or insolvent.*"—Bagehot, *Lombard Street*.

instruments of credit." His chief business is to receive deposits of money, to conduct current accounts, to buy Bills of Exchange and sell Drafts. He undertakes to repay the balances standing to the credit of his customers' **Current Accounts** on demand, and the amounts to the credit of their **Deposit Accounts*** at the expiration of an agreed time.

As a general rule, these balances in the aggregate show an average which is steadily maintained, and it is by lending at interest the greater part of this average aggregate balance that a Banker makes his profit.

In view of a Banker's obligation to repay a great part of the customers' balances on demand a sum representing 10 to 20 per cent. of his liabilities is usually kept instantly available either in cash (*i.e.* Bank of England notes or coin) or on current account with the Bank of England. The balance of the available cash is lent out or invested by the Bank, due regard being paid to the safety of the security taken or the investment held. The chief modes in which this available balance is utilized are in : (a) Loans to Bill Brokers and others repayable on demand or at short notice ; (b) the purchase of Government and Municipal Stocks and other "gilt-edged" investments ; (c) the purchase of Bills of Exchange, which are regarded as one of the best forms of investment ; (d) loans to the Bank's customers and to other persons on approved security.

The two forms of investment, (a) and (b), being readily realizable in case of need form a Banker's second line of defence in the event of sudden demands being made upon him.

Throughout the English-speaking world the greater part of a trader's receipts and payments are in the form of cheques. Consequently, Bankers are obliged to effect an enormous number of entries to record the cheque transactions of their customers, and in order that the state of a customer's account may be ascertained at any time, the Current Accounts of all customers must be written up practically from hour to hour.

These are the main requirements which have influenced the system of book-keeping employed by Bankers. The

* The notice is frequently waived by the Banker unless the amount involved is unusually large. Either a Deposit Pass Book or a "Deposit Receipt" is issued to the Depositor, the latter being the most common form.

greater part of the staff of a Bank is usually employed either in paying cheques and bills drawn on or domiciled at the Bank by its customers, or in receiving and collecting cheques, bills, etc., paid in by its customers. The turnover involved by these two operations is usually greatly in excess of that arising from any other of the functions of a Banker, and, of necessity, special book-keeping methods, unknown in the majority of businesses, are employed to record these multitudinous payments. But to record such transactions as lending or investing money, the purchase of securities, or the warehousing of valuable property, etc., the book-keeping of a Bank does not materially differ from the methods already familiar to the student. In most of the larger Banks the officials who pay out are distinct from those who receive money. This rule is adopted to prevent fraud by the Bank officials, and to expedite the work of the Bank. Only a small proportion of the cheques drawn by the business world are presented at the Banks' counters for payment in notes or coin. The majority of the cheques are drawn in favour of persons who pay them into their Current Accounts for collection. Cheques received by London Banks for collection are not presented for payment over the counters of the Banks upon which they are drawn, but through the Bankers' Clearing House in Post Office Court, Lombard Street. All the principal metropolitan Banks are members of the London Clearing House and are represented there by one or more "in-clearing" clerks whose duty it is to ascertain how much each Bank owes to, and is owed by, the other Banks comprising the association. It is the *balance* only due to or from any particular Bank which is settled by the payment of money, and in London this is effected by a transfer order on the Bank of England, with which every Clearing Bank keeps an account.*

•Three clearings † take place daily at the London Clearing House, respectively dealing with **Town**, **Metropolitan** and **Country** cheques. The cheque forms issued to a

* It should be mentioned that many large provincial towns have local "Clearing Houses," the settlements being effected in a similar way to that described above by transfer on the local branch of the Bank of England.

† These clearings take place: (a) 10.30 for Bills and previous day's late cheques (b) 12 noon for Country cheques, and (c) 2.30 for cheques paid in during the day. The clearing closes at 5 minutes past 4 o'clock.

Bank's customers bear in the bottom left-hand corner one of three letters, **T, M, C**, to indicate the particular clearing through which the cheques will pass. Cheques paid into a Bank for collection are entered in specially ruled registers by the "out-clearing" clerks at the Bank and handed to "in-clearing" clerks at the Clearing House. At the close of the clearing the in-clearing clerk prepares a statement showing the position of his Bank on the day's transactions in relation to the other Clearing Banks. A transfer form is then made out in conformity with the result shown by the statement, initialled by the inspector, and taken to the Bank of England, in whose books the necessary adjusting entries are made.

THE SLIP SYSTEM OF LEDGER POSTING

In the majority of Banks posting in the main Ledgers is effected to a great extent from **Slips**, and not from Journals and Cash Books as in ordinary commercial houses. It is essential that the Current Accounts of customers should be kept posted throughout the day, and seeing that the Cash Books and Journals are in constant use, and even when available for posting, can only be used by one ledger-keeper at a time, a more expeditious method of posting becomes necessary.

The posting slip is a small piece of paper containing an instruction to debit or credit a particular sum of money to a named Ledger Account; it is thus in essence one half of a Journal entry.

In the ordinary form of Journal the two parts of each double entry are written on consecutive lines on the same page, successive entries following each other until the page is full. It would be quite feasible for a book-keeper to use a fresh page for each Journal entry, and also to go a step further, tear away the binding and reduce the Journal to a series of loose leaves, each containing the record of one double entry. If, in an office, there are many Ledgers to be posted and only one Journal is used for original entries, delay must always occur in the posting; and the delay would be intensified, and confusion and disorder ensue in a busy office where many Journals and Cash Books were employed, each containing entries to be posted to one or other of the numerous Ledgers. But when a Journal is split into loose leaves, each containing a single entry, each ledger-keeper

can be supplied with the particular Journal entries relating to his Ledger and can proceed with his posting unhindered by his fellow clerks. Such loose leaves, whether they form a Journal or a Cash Book (for the same methods can be applied in either case) are called "slips." They are used extensively in Bank book-keeping, and also in other mercantile businesses where the volume of transactions is very great, *e.g.* in large, soft goods warehouses. In some cases the debit and credit entries necessary for any given transaction are entered not on one but on two slips, the debit entry on a slip of (say) blue paper, and the credit entry on (say) a white slip. This practice permits an even more complete distribution of the work. Where slip posting is employed the various slips must be collected, arranged in bundles, and preserved for future reference.

The following specimen debit and credit slips for a transaction which would otherwise be journalized will illustrate the use of posting slips. The transaction is a simple transfer between two Ledger Accounts, viz. a transfer from a customer's Current Account to his Deposit Account, and the principle is the same whatever the nature of the transaction.

Example.—C. Warren transfers £100 on January 10, 1911, from his Current Account with The Bishopsgate Banking Company, Limited, to his Deposit Account.

B. B. CO., LTD.	<u>THE BISHOPSGATE BANKING COMPANY, LIMITED.</u>	
	396, ST. HELEN'S PLACE, E.C. Jan. 10, 1911.	
	<u>Debit</u>	CHARLES WARREN, Current Account for transfer to Deposit Account.
	£100 : 0 : 0	C. J. L. Accountant.

B. B. CO., LTD.	<u>THE BISHOPSGATE BANKING COMPANY, LIMITED.</u>	
	396, ST. HELEN'S PLACE, E.C. Jan. 10, 1911.	
	<u>Credit</u>	Deposit Account, CHARLES WARREN I/R No. 80642 transfer from Current Account.
	£100 : 0 : 0	C. J. L. Accountant.

The slips illustrated above are made out in the Bank itself, by members of the clerical staff, and not by the

customer interested, but in the case of cheques drawn by customers, and amounts paid in for their credit *the original cheques or paying-in slips made out by the customer are used by the Bank as slips for the purposes of Ledger posting.* The employment of original documents in this way saves the staff labour and reduces the possibility of fraud and error.

In Bank book-keeping the majority of entries are those which in an ordinary business would be entered in the first instance in the Cash Book; *e. g.* all cheques paid necessitate credit entries, and remittances from customers debit entries in the Cash Book. It is to entries of this nature that the slip system is primarily applied. Entries which do not involve a debit or a credit to cash are less numerous, but in some cases the slip system is used for these also, and in others bound Journals of the customary type, more or less specially ruled. From the slip accompanying or authorizing the cash receipt or payment, the cashier makes a debit, or a credit, entry in his Cash Book, and at the same time he initials or marks the slip to show that he has received, or paid, the money. The slip is then handed to the ledger-keepers and posted to the credit, or the debit, of the particular Ledger Account indicated. Thus the double entry is completed, and the slip, having served its purpose, can be filed.

In actual banking practice the cashier does not always debit, or credit, cash direct in the principal Cash Book, but usually in a subsidiary, or counter, Cash Book, the totals of which are incorporated at the end of the day in the principal Cash Book. This practice involves no difference of principle. Similarly, when the cashier has done with the slip he does not as a rule pass it direct to the ledger-keeper but to a "waste book," or an analysis, clerk, who in turn hands it to the ledger-keeper. The **Waste Book** * or **Received Day Book** is a subsidiary book in which receipts are analyzed under suitable headings according to their nature for the sole purpose of facilitating their collection. In the every-day work of a Bank all sums paid in by customers for collection are accompanied by **paying-in slips** ruled according to the custom of the particular Bank and supplied in bound sets by the Bank

* The functions of the waste book have disappeared in ordinary commerce, as the student is already aware. The name is still, however, employed in the banking world.

to its customers. On these paying-in slips the customer makes a list of the cheques, notes, coin, postal orders or other forms of money paid in by him, and in due course the total of each of the paying-in slips is credited to him in his Pass Book. The *original slips* made out by the customer are the posting slips utilized by the Bank for the purpose of its own book-keeping, and from them the necessary entries are made, viz. a debit entry to cash by the cashier, and a credit entry in the customer's Ledger Account by the ledger-keeper. When paying in money on Current Account it is wise to have the counterfoil of the paying-in slip book initialled, by the receiving cashier. A specimen paying-in slip is given on page 463.

This slip embodies the following transaction—

L. Cuthbert Cropper pays in to his bankers on June 1, 1911, the sum of £91 3s. 2d. made up as follows: Gold coin £25, silver £1 10s., Bank of England notes £15, and three cheques on other Banks £25 10s., £6 18s. 6d., and £17 4s. 8d.

Turning to the other side of a customer's transactions with his Banker, almost all the payments made by the Bank are made against cheques drawn by its customers, but as already stated the greater number of the cheques drawn on a Bank are presented at the Bank's desk in the Clearing House, and a relatively small number only are paid by the cashiers over the counter. Every customer of a Bank is provided with a book of cheques bearing impressed 1d. stamps. Towards the end of the cheque book a printed application form for the supply of another cheque book is incorporated. This form must be signed by the customer before a new cheque book is issued to him. The original application form for a fresh supply of cheques is used as a debit posting slip for the cost of the stamps on the cheques.

The original cheques drawn by the customers of a Bank are used as posting slips and are debited in the customer's Ledger Account. The corresponding credit entry is made when the cheque is paid, either by the paying cashiers or through the clearing department, and this credit entry appears, of course, in the Cash Account. It may form part of a total, in common with all similar payments which have taken place on a particular day, and the paid cheque may pass through other hands besides those of the cashiers before being posted in the Ledger, but the principle that there must be a debit to the

THE UNION OF LONDON & SMITHS BANK,
LIMITED.

THE UNION OF LONDON & SMITHS BANK, LIMITED.

2, Princes-Street, E.C.

June 1st 1911
£ s dJune 1st 1911Cheques on London
Bankers only

Credit Account of

L. Cuthbert CropperJ. Smith
R. Brown
A. Goodwin25 10
6 18 6
17 4 8

Cheques on London Bankers only

25 10
6 18 6
17 4 8

Total of Cheques	49	13	2
Bank Notes	15	.	.
Country Notes	26	10	.
Coin	91	3	2
Total £	91	3	2

Total of Cheques	49	13	2
Bank Notes	15	.	.
Country Notes	26	10	.
Coin	91	3	2
Total £	91	3	2

No.	Cashier
	Wastebook

All Cheques to be Crossed UNION OF LONDON & SMITHS BANK, Limited,
and endorsed if not payable to bearer.

customer and a credit to Cash Account, is not altered by these details. London Bankers return all paid cheques to their customers, but this custom is not always followed by country Bankers.

All customers' paid cheques, paying-in slips and debit and credit posting slips are passed, after posting in the Ledger, to the clerk whose duty it is to write up the Pass Books. Pass Books are thus written up from the original vouchers, and since they are compared with the Ledger before being handed out to the customers an additional check on the Ledger posting is secured. In some cases the Pass Books are copied from the Ledger Accounts themselves.

The foregoing explanations afford an illustration of the subdivision of the work of a Bank, the purpose being to obtain expedition and to ensure complete checks upon the work. It has been explained that the original paying-in slip is recorded first by the receiving cashier, then by the Waste Book clerk, then by the ledger-keeper, and is finally handed to the Pass Books clerk to be entered in the Pass Book to which it refers. Thus all these members of the staff check one another's work. Similarly payments are entered from the cheque itself by (a) the keeper of the supplementary Cash Book, (b) the keeper of the Paid Cash Book, (c) the ledger-keeper, and (d) the clerk in charge of the Pass Books. As a further safeguard the Ledger clerks in many banks periodically exchange Ledgers.

The following particulars explain the general scheme of the book-keeping of a Bank, although in different Banks difference in detail will be found. A **General Ledger** is kept containing accounts for each type of asset and liability and for profits and losses. This Ledger is self-balancing, *i. e.* its Trial Balance when extracted shows debit and credit totals which agree. The General Ledger may be called the Key Ledger of the Bank. It provides a bird's-eye view of the whole of the Bank's financial position, and is usually written up daily. In the General Ledger only one "total" or "adjustment" account appears, in many instances, as representing the total of large numbers of individual accounts kept in one or more subsidiary Ledgers, *e. g.* as a general rule one account only will be found in the General Ledger under the heading of "Current Accounts" showing the *total* due by the Bank to its current account customers. A ruling of the "Current Accounts Account" in the General Ledger is given on page 465. The Bank may employ twenty or thirty Current Account Ledgers all ranking together in its system as subsidiary Ledgers containing the details composing the one "Current Accounts Account" in the

General Ledger. The balance of the account in the General Ledger thus equals and replaces the multitudinous balances appearing in the subsidiary Ledgers. In addition to these Current Account Ledgers there are numerous other subsidiary Ledgers grouped round the General Ledger. These Ledgers contain the detail accounts of the Bank's assets and liabilities arranged according to the ordinary banking form. The balances shown in any one, or in any group, of these subsidiary Ledgers, if totalled together, must agree with the "total" balance shown in the General Ledger Account relating to the particular subsidiary Ledger or Ledgers. For example, one **Investments** Account in the General Ledger will show the total investments of the Bank at any time. **Loans, Bills Discounted, Deposit Accounts** and so on, are each similarly represented by one "Total" Account in the General Ledger. The method of constructing Total or Adjustment Accounts in ordinary commercial book-keeping has been explained in Chapter XVIII, and the student will be wise to refresh his memory by re-perusing that chapter in this connection; for though minor differences may occur in practice the principles stated there are identical with those adopted by Banks.

In order to disclose the variation in the Bank's financial position, the Trial Balance of the General Ledger is frequently extracted daily. In the case of a Bank possessing a head office and branches, the head office and each branch will possess a General Ledger of the descrip-

GENERAL LEDGER—CURRENT ACCOUNTS

Date.	Particulars.	Debits.		Date.	Particulars.	Credits.		Balance.	
		£	s.			£	s.	£	s.
1911.				1911.					
June 2	Balance			June 8	Received Cash Book				
" 8	Paid Cash Book								

tion explained above, showing in summarized form the daily position of the head office or the branch. The usual subsidiary Ledgers and registers will be kept, in every case, at the office concerned, explaining and working up to their respective "total" accounts in the head office, or branch, General Ledger. In addition to the foregoing a separate and independent self-balancing Ledger is commonly kept at the head office showing the combined position of the head office and all the branches of the Bank, *i. e.* the financial position of the Bank as a whole. This latter Ledger partakes more of the nature of a periodical summary than an ordinary Ledger, and is written up from the returns transmitted to the Chief Accountant at the head office by the ordinary head office or branch book-keeping staff. Its form varies in different institutions although its object is the same.

It is now possible briefly and generally to outline the method followed in dealing with payments in and out, by or to the Bank's customers.

Each receiving cashier is provided with a **Counter Cash Book** to record his receipts from the customers of the bank. This book is ruled as follows, and is written up as the deposits are received by the cashier.

RECEIVED (COUNTER) CASH BOOK

Money.			Notes.	Name.	Total of Credit.		
£	s.	d.			£	s.	d.
110	10	6	£50	Higgins Bros.	110	10	6
			10/5				
			827628/37	Morrison & Co.	105	0	0
5	0	0					

NOTE.—The first entry represents a payment in of £110 10s. 6d. (£60 10s. 6d. coin and £50 in notes). The second entry represents a payment in of £105 (£5 in notes and £100 in cheques); it will be noticed that the *cheques* received are included in the Total column but are not stated separately in this book.

The receiving cashier places in his till any gold, silver, or copper coin paid in by the customer; he passes on to a "Waste Book clerk," seated immediately behind him, the customer's original paying-in slip, together with the notes or cheques attached to it. The Waste Book clerk is provided with a species of analysis book known as a **Waste Book** or **Received Day Book** containing columns for the analysis of the different forms of notes and cheques, according to the manner in which they will be collected

by the Bank. All cheques, Bank notes, etc., paid in by customers are recorded and classified in this Waste Book, according to their nature, before being entrusted to the various departments of the Bank whose duty it is to obtain payment of them. The Waste Book thus acts as a check both on the receiving cashier and the various collecting departments. The usual form is as shown on this page.

After entry in the Waste Book, the customer's paying-in slip parts company with the notes and cheques. The slip goes direct to the ledger-keeping department for entry on the credit side of the customer's Ledger Account; the Bank of England notes are handed to the proper department to list and pay in for the Bank's credit at the Bank of England; and the cheques are distributed amongst one or more clearing departments for presentation either at the clearing house ("clearing" cheques), or at the office upon which they are drawn ("walks" cheques).

Bank of England notes are not reissued to the public, but are paid in

WASTE BOOK (RECEIVED DAY BOOK)

Name.	Total Amount.			DETAILS.																				
				Town Clearing.			Metropolitan Clearing.			Walks.			Bank and Country Notes.			Bank of England.			House (own) and Country Cheques.			Money.		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	
Higgins Bros.....	110	10	6	0	0	0	20	0	0	10	0	0	5	0	0	30	0	0	3	0	0	60	10	0
Morrison & Co.....	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

NOTE.—The entries given above correspond to those given in the Received Cash Book. The £100 in cheques paid in by Morrison & Co. have been analyzed according to the Bankers upon whom the cheques were drawn, viz. £10 Town Clearing, £20 Metropolitan, £10 walks, £30 Bank of England cheques, and £30 country cheques.

In some forms of Waste Book the money and Bank notes entered on the paying-in slips are not recorded, the book being restricted in its use to the cheques paid in.

GOLDSMITH'S BOOK
(Bank of England·Book)

Paid in.										Withdrawn.									
Date.	Details.	Gold.		Notes.		Post Bills.		Bank of England Cheques.		Fo.	Total.		Details.	Fo.	Total.				
		£	s. d.	£	s. d.	£	s. d.	£	s. d.		£	s. d.							
1910.																			
Dec. 5	Receiving Cash- iers			500	0	0	25	0	0	100	0	0	625	0	0	Notes			
" 5	Clearing.....						10	0	0	1,000	0	0	1,010	0	0	Gold			
				500	0	0				1,100	0	0	1,035	0	0	Silver			
																1,150 0 0			

PAYING CASHIER'S COUNTER CASH BOOK
(Supplementary paid Cash Book) •

Total.			Name.	Numbers of Bank notes.	Amount of Notes.			Money.			
£	s.	d.			£	s.	d.	£	s.	d.	
35	0	0	C. Wrayson	24021/3		15	0	0	20	0	0
5	0	0	W. Higgins	9/5							
10	0	0	C. Meyer	13298		10	0	0	5	0	0
				1/10							

at the Bank of England to the credit of the receiving Bank. The book in which these notes are entered is known as the **Bank of England Book**, or the **Goldsmith's Book**, a title reminiscent of the earlier days of English banking. It is a memorandum register containing details of a Bank's daily deposits of notes and cheques on the Bank of England with the Bank, and of its withdrawals from the Bank. The form of this book is usually as shown on p. 468.

To turn to the other side of a Bank's dealings, viz. the payment of cheques.

Each cheque paid over the counter is entered by the paying cashier in his **Paid Cash Book**, details being recorded of the form in which the money was paid. When the whole or a portion of the cash drawn in payment of a cheque consists of Bank notes, the paying cashier records the numbers of the notes either in his counter Cash Book or on the back of the cheque. The ruling of this book also is shown on p. 468.

The balance of cash with which the cashier begins each day is recorded either at the head of the day's entries in this book or in a supplementary book.

Customers' cheques paid through the Clearing House are entered in a **Clearing Book**, against which are offset, on the other side of the same book, all clearing cheques received for collection by the Bank in question from its own customers. From a **Summary or Balance Book** of this description the balance to be paid or received through the Clearing House is ascertained. All cheques, whether paid over the counter or through the clearing, pass to the ledger-keepers of the Bank to be debited to the customers by whom they were drawn.

At the end of each day a complete summary of the day's cash transactions is entered up, from slips supplied by the various departments, in a general Cash Book or **Cash Balance Book**. The agreement of this book marks a distinctive point in the day's business. A further general daily summary of the whole of the Bank's transactions is made out, to which the totals of the cash receipts and payments shown in the Cash Balance Book are carried, together with the totals of all Journals used. This **daily summary** forms, in point of fact, one comprehensive Journal entry, in totals, for the whole of the day's transactions, and from it the **General Ledger** is written up.

Forms of General Cash Book and Daily Balance are given on page 470.

The ruling of the Ledgers of a Bank follows ordinary principles, but it will be found in many instances, notably in the case of the Current Account Ledgers, that the debit and credit money columns are placed side by side instead of upon opposite pages. A "balance column" is often added for the continuous insertion of the balance of the account. Extra labour is required to extend the balance of the account in the balance column at the close of the entries for each day, and in some instances, therefore, the balance column is not used. But the column has very great utility, and it is generally considered worth while to employ one. Additional columns are also often included in Current Account Ledgers to show the interest allowed on customers' daily balances. In the great majority of accounts no interest is allowed, the use of the balance by the Banker being generally held to produce little more than a fair return sufficient to cover the expense of keeping the account and to provide reasonable profit. But with foreign Banks, and in the accounts kept by foreign Banks with London Banks, interest allowances are not uncommon.

Two forms of Current Account Ledgers are appended. One is ruled without and the other with interest columns.

ALFRED VERNON, 345, HOUNDSDITCH, E.C.

CURRENT ACCOUNT LEDGER (Ordinary Form)

Date.	Details.	Fo.	Dr.			Cr.			Balance whether Dr. or Cr.	Balance.		
1910.			£	s.	d.	£	s.	d.		£	s.	d.
June 30	By Balance.....	✓				600	0	0	Cr.	600	0	0
Dec. 7	To C. 1124, self.....		602	5	0				Dr.	2	5	0
" 9	By Cash.....					5	0	0				
" 9	" Country Cheques	325				160	0	0	Cr.	162	15	0
" 31	To Balance carried down.....	✓	162	15	0							
			£	765	0	0	765	0	0			
1910.												
Dec. 31	By Balance brought down.....	✓				162	15	0	Cr.	162	15	0

* This column may be omitted if desired, in which case credit balances are entered in black ink and debit balances in red ink.

The Current Account Ledgers of a Bank are, as has been stated, written up from the paying-in slips, customers' cheques, debit and credit slips, and Journals. The Current

ABEL HAYGATE, BROMSGROVE NURSERIES, CHILVEDDON.

CURRENT ACCOUNT LEDGER (form for interest bearing accounts)

Date.	Details.	Fol.	Dr.			Cr.			Nature of Balance (Dr. or Cr.)	Balance.			Interest.						
			£	s.	d.	£	s.	d.		£	s.	d.	Days.	Product.	Rate.				
1910.																			
Dec. 31	By Balance	✓				1,250	10	2		Cr.	1250	10	2		10	12,510			
1911.																			
Jan. 10	" Cash				0	100	0	0			1850	10	2		7	9,457			
" 17	To A. S1206, Brown		5	0	0														
" 17	" A. S1207, Jones		8	1	1						1837	2	1		14	18,718			
" 31	" A. S1208, Higgins		500	0	0						837	2	1						
" 31	By Interest					1	13	5			838	15	6				1½		13
" 31	To A. S1209, Self		838	15	6														5
" 31																			
		£	1,352	3	7														
						£1,352	3	7									40,885		

The above is an example of a Current Account carrying interest on daily balances, the interest being credited to the customer on January 31, 1911, when he withdrew the whole of his balance.

Account Ledgers, taken as a whole, work up to one "total" account called "Current Accounts" in the General Ledger, or, in some instances, the General Ledger may contain a separate total account for each Current Account Ledger. If only one account is kept in the General Ledger for the whole of the Current Account Ledgers one or more analysis books, or **Check Ledgers**, become necessary for the purpose of ascertaining the total balance of each separate Current Accounts Ledger. These analysis books are written up from the cheques, paying-in slips, etc., and thus form the connecting link between the separate Current Account Ledgers and the General Ledger. They contain in point of fact the adjustment account for the Cur-

rent Account Ledgers, ordinary adjustment accounts (see Chapter XVIII) not being usually kept in the Current Account Ledgers themselves.

Some Banks write up the Pass Book exactly as it appears in the customer's account in the Current Accounts Ledger. Others reverse the sides, placing the withdrawals on the credit and the deposits on the debit side. In the latter case the Pass Book is headed, e.g. *Lloyds Bank, Ltd., in account with John Smith, in place of John Smith in account with Lloyds Bank, Ltd.*, in the former case.

Customers remitting Bills of Exchange to their Bankers for collection usually do so a few days before the Bills mature for payment to enable their Bankers to present them on the exact due date. Bills received by a Banker for collection are entered in a **Bills for Collection Register** or **Short Bill Journal**, the form of which is here given.

Some bankers keep no further record of Bills received for collection, and exclude them from their book-keeping system, but others bring them in. The entries made in the latter case are: (a) A *debit* to an Asset Account called **Bills for Collection Suspense Account**. (b) A *credit* to a Suspense Ledger Account opened under the name of the customer in a separate **Bill Ledger**.

BILLS RECEIVED FOR COLLECTION REGISTER
 ("Short Bill Book." "Deposit Bill Journal")

Date received.	No.	Name of Sender.	Drawer.	Acceptor.	Date drawn.	Due Date.	Where payable.	Amount.				Date paid.
1911. Jan. 1	1056	C. Brown	A. Black	C. Grey	Nov. 10	Jan. 26	Bank of England	£	s.	d.		1911. Jan. 26
" 2	1057	O. Jones	M. Green	W. White	Oct. 5	" 27	Union Bank	500	0	0		
								1027	4	8		

BILLS RECEIVED FOR DISCOUNT REGISTER

Date received.	No.	Seller.	Acceptor.	Drawer.	Term.	Where payable.	Pol.	Amount.		Due Date.	Days to run.	Rate.	Discount.		How disposed of.
								£	s.				£	d.	
1910. Nov. 18	1027	C. Brown	W. Lord	M. Hills	6 m/l	Paris		100	0	1911. Jan. 5	48	5%	0	13	Paid
" 30	1028	M. Hay	C. Prolyn	S. Sharp	6 m/s	Union		500	0	April 4	125	5%	8	11	

When Bills for collection are paid, the proceeds are credited to the customer's Current Account, and reversing entries are passed in the "Bills for Collection Account" and in the "Bill Ledger Account."

Bankers are always willing to discount (*i.e.* purchase) Bills of Exchange from their customers, provided the parties to the Bills are of sufficiently good standing and the customer's reputation is satisfactory. Usually a Banker requires his customer's endorsement on the Bill whether payable to him or not. It is not the practice of British Bankers to discount Bills of more than six months tenor, neither have Bills payable abroad been much dealt in hitherto. This class of business is chiefly conducted by Bill Brokers and foreign Bankers. The rate of discount deducted by a Banker varies according to (a) the standing of the parties to it, (b) the market value of loanable capital at the time, and usually bears a fixed relation to the current "bank rate." * In making his book-keeping entries a Banker debits the full face value of the Bill to his **Bills Discounted Account**, and credits the discount deducted to his **Discount Account**, instead of making a single debit to Bills discounted for the net cost. This affords greater clearness and facilitates reference and the passing of the necessary entries when the Bill matures. Since a Banker, when he purchases a Bill, credits to his Discount Account the whole of the discount charged, he

* The minimum rate charged by the Bank of England for discounting approved Bills. The rate is fixed every Thursday by the Bank Court.

must make a reserve should his Profit and Loss Account be made out at a date before the Bill matures. This reserve appears in the accounts as **Rebate on Bills not due** (see p. 519). As soon as he discounts a Bill a Banker enters it in his **Bills Received for Discount Register**, the form of which is given on p. 474.

In addition to this he keeps a careful record of—

- (a) The Bills discounted for each customer, in order that the amount advanced to a given customer may not exceed the limits of safety,
and (b) The name of the acceptor and the amount of each Bill, so that too much of a given acceptor's "paper" may not be purchased.

The former details are kept in a **Discount Ledger**, in accounts headed with the name of each customer, and the latter in an **Acceptors (or Upon) Ledger** in accounts headed with the name of each acceptor. The form of a Discount Ledger is as follows, and the ruling of an Acceptors Ledger is similar.

NAME OF CUSTOMER: S. SOUTH, 246, FINSBURY CIRCUS, E.C.

BILLS RECEIVED FOR DISCOUNT LEDGER

(Discount Ledger)

Date received.	No.	Acceptor.	Drawer.	Due date.	Amount Dr.			Amount Cr.			Balance.		
1911.					£	s.	d.	£	s.	d.	£	s.	d.
Nov. 16	864	C. East	W. West	Dec. 16	1241	10	0				1241	10	0
Dec. 16	"	Paid						1241	10	0			

When paid the amount of a discounted Bill is credited to the Bills Discounted Account and debited to Cash Account. All Bills, whether discounted or held for collection, are given distinctive numbers as soon as they come into the Banker's hands, different series of numbers being used for different kinds of Bills. **Bill Diaries**, in which bills can be entered under their due dates, are indispensable to a Banker. Bills are usually sorted in order of their maturity dates, Bills of the same due date being kept together in one pocket of a leather **Bill Case**.

The annual published accounts of a Bank are given in

Chapter XXV, together with some comments as to the form and composition of such statements.

The published Balance Sheets of American Banks are presented in a somewhat different form to that which is employed in this country, the sides upon which the Assets and Liabilities appear being reversed as compared with British practice. In addition to this, many items appear under titles which are unfamiliar in this country. A specimen statement of a typical National (*i.e.* note-issuing) American Bank is appended.

THE BANK OF COMMERCE (NATIONAL ASSOCIATION)
CLEVELAND, U.S.A.

Statement at the close of Business, September 1st, 1910

Resources		Liabilities	
Loans and Discounts.....	\$9,973,571·90	Capital Stock	\$2,000,000·00
Overdrafts	11,994·86	Surplus Fund.	1,000,000·00
U.S. and other Bonds	2,786,400·41	Undivided Profits	671,872·33
Due from U.S. Treasurer ..	89,275·00	Circulating Notes	1,048,250 00
Due from other Banks.....	3,293,702·13	Deposits	13,664,308·52
Cash.....	2,909,986·55	Bond Account.....	690,500·00
	<u>\$19,064,930·85</u>		<u>\$19,064,930·85</u>

23A.

1. What are (a) debit slips, (b) credit slips? Make out the debit and credit slips necessary to transfer £1,000 from your Current Account at the Lothbury Bank to your Deposit Account.

2. Trace the history of a cheque drawn by a customer on his Current Account, assuming that it is presented at the Bank's counter for payment in cash.

3. Trace the history of the cheque mentioned in Question 2, assuming that it is presented for payment through the Clearing House.

4. I pay a crossed cheque for £10, drawn on the Blankshire Bank, and Bank of England notes for £20 into my Current Account with the Yorkshire Bank, Ltd. Trace the subsequent history of these items.

5. What is the purpose and use of a paying-in slip?

6. Show the connection between the Current Account Ledgers of a Bank and its General Ledger.

7. From what materials are the Current Account Ledgers of a Bank written up?

8. What does a customer's Pass Book contain, and how is it written up?

9. Explain the following terms: Paying Cashier, Cash Balance Book, Goldsmith's Book.

23B.

1. Explain briefly the business of a Banker as conducted in this country.

2. In what modes are cheques drawn on a Bank by its customers presented for payment?
3. Explain what is meant by a Bankers' Clearing House.
4. Explain what is known as the "slip" system of posting as applied to the accounts of a Bank.
5. How does a Bank make its profits?
6. Comment on the following statement: "Money paid into a Bank is locked up in the Banker's strong room until the depositor calls to withdraw it."
7. Explain the following terms: Receiving Cashier, Town Clearing, Walks Cheques, the Waste Book.
8. What is a General Ledger of a Bank? What position does it occupy in a Bank's system of book-keeping, and what does it show?
9. What is a Receiving Cashier's Counter Cash Book, and how is it ruled?

23c.

1. I paid into my Current Account at Lloyds Bank, Ltd., on January 16, 1911, the following, viz.—

	£	s.	d.
Gold Coin	5	0	0
Silver Coin	0	10	0
Bank of England notes	10	0	0
Cheque on the Bank of England	5	0	0
Town cheques on various Banks	25	0	0
Cheque on Lloyds Bank, Ltd.	5	0	0
	<u>£50</u>	<u>10</u>	<u>0</u>

Rule the following forms and enter therein the foregoing items as far as the various forms are concerned—

1. Paying-in slip.
2. Receiving Cashier's Counter Cash Book.
3. Received Waste Book.
4. Bank of England Book.

2. I drew a cheque on my Current Account for £50, which I presented for payment at the Bank's counter, taking £5 in silver, £20 in gold, and the remainder in £5 Bank of England notes. Rule a form of Paying Cashier's Counter Cash Book and enter in it the foregoing transaction.

23d.

1. On January 16, 1911, I opened a Current Account with the Commercial Bank, Ltd., paying in £300 in Bank notes. I obtained a book of 25 order cheques, for which the Bank debited me with 2s. 1d. for the cost of the Revenue stamps. I drew the following cheques: January 18, W. Brown, Ltd., £5 6s. 9d.; C. Harris, £18 4s. 2d.; January 31, C. Wray, £40. I paid in £80 on February 15 and £200 on March 28. I drew a cheque in favour of M. Harris & Co. for £150 on May 19, and one for £8 2s. 5d. on June 22 in favour of J. Jones, Ltd. From the foregoing particulars show my Current Account in the Bank's Ledger, balancing it as on June 30, 1911.

2. From the details given in Question 1 show my Current Account to June 30, 1911, in the Bank's Ledger, assuming that the Commercial Bank, Ltd., agreed, when opening my account, to allow

me interest at 2 per cent. per annum on my daily balance, interest to be made up to, and credited on, June 30 and December 31 in each year. Assume that all cheques drawn and remittances paid in were cashed on the date of drawing or payment in.

3. Make out my Pass Book according to the details given in Question 1, balancing it as on June 30, 1911.

23E.

From the following particulars prepare the Profit and Loss Account of the Surrey Banking Co., Ltd., for the year 1911, and Balance Sheet as on December 31, 1911, in proper form for publication.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Share Capital—100,000 shares of £10 each. £5 per share paid up				500,000	0	0
Reserve				1,000,000	0	0
Cash in hand	100,000	0	0			
Bank of England, Current Account	900,000	0	0			
Bills Discounted	2,200,000	0	0			
Current and Deposit Accounts				10,000,000	0	0
Short Loans	2,185,000	0	0			
Loans to Customers	3,200,000	0	0			
Gross Profits				235,000	0	0
Interest paid	60,000	0	0			
Expenses	80,000	0	0			
Profit and Loss Account Balance, Dec. 31, 1910 . .				120,000	0	0
Dividend paid, Jan. 16, 1911, on account of 1910 profits . .	80,000	0	0			
Consols £2,000,000 at 77 per cent.	1,540,000	0	0			
Other Investments	1,230,000	0	0			
Reserve of Rebate carried forward from 1911 to 1912 . .				20,000	0	0
Bank Premises	300,000	0	0			
	<u>£11,875,000</u>	<u>0</u>	<u>0</u>	<u>£11,875,000</u>	<u>0</u>	<u>0</u>

23F.

From the following particulars prepare the Balance Sheet of the St. Osyth's Bank, Ltd., as on December 31, 1909, together with a Profit and Loss Account for the year 1909 in proper form for publication:—

Share Capital paid up (£10 per share on 125,000 shares of £100 each) £1,250,000; Cash in hand and at Bank of England £2,873,000; Consols and other Government Securities £2,976,000; Reserve Fund £790,000; Due to customers on Deposit, Current, and other Accounts £14,888,000; Liability on acceptances for customers £803,000; Customers' liability for acceptances £803,000; Money at call and short notice £1,025,000; Rebate (Credit Balance) carried forward at Dec. 31, 1909 £27,000; Bills discounted

£4,074,000; Loans and Advances on security £,5718,000; Bank premises £427,000; Profit and Loss Account, Balance Dec. 31, 1908, £23,000; Gross profits for the year 1909 £375,000; Salaries, Income Tax, and all other expenses for 1909, including provision for Bad and Doubtful Debts £166,250; Dividends paid, June 30 1909, £93,750.

Answers.—

- 23D. 1 & 3. Balance, June 30, 1911, £358 4s. 7d.
2. Balance June 30, 1911, £361 13s. 5d. (including Interest, £3 8s. 10d.).
23E. Net profit, £135,000; Balance Sheet totals, £11,655,000.
23F. Net profit, £231,750; Balance Sheet totals, £17,896,000.

CHAPTER XXIV

LIFE ASSURANCE ACCOUNTS

(See also Compendium, p. 678. and the Accounts of the Prudential Assurance Co., Ltd., pp. 575-580).

As long ago as 1826 distinction was made between the terms **Assurance** and **Insurance**. The former is now restricted to events which are *bound to happen*, such as death, and is confined to life assurance. The term "insurance" is applied to risks which *may or may not happen*, such as fire, shipwreck, accident, burglary, etc.

Life assurance is a contract. The terms of the contract are defined in a document called the **Policy**, under which the assuring company, in consideration of certain agreed payments, called **Premiums**, undertakes to pay on the death of the **Assured**, or in certain other events, an agreed sum called the **Sum Assured**. In some cases a lump sum, called a **single premium**, is paid, and the policy is then a **fully paid policy**. *Ordinary* Life Assurance premiums are paid quarterly, half-yearly, or annually, the sums assured rarely being under £50. *Industrial* Life Assurance premiums are paid weekly, or monthly, and the sums assured are sometimes as low as 30s. Life Assurance premiums consist of: (a) A sum which represents the cost price of the risk to the Company. (b) Loading. *The cost price** is ascertained by an actuarial valuation of the risk involved, and is calculated according to the average expectancy of life at different ages disclosed in **Mortality Tables**. The tables now in most general use are the Institute of Actuaries **H^m** (Healthy Male) Table, British Offices **O^m** and **O^{m(s)}** Tables,† and for industrial business the **English Life No. 3 Table**. For annuity purposes the **Government**

* Also known as the pure or net premium.

† In this table the first five years of assurance experience has been omitted from the calculations because the rate of mortality for the first five years is much lower than subsequently.

Annuitants Table (Finlaison), 1883, is commonly used. These tables give the *average* duration of life for each age, or as it is termed the *expectation of life*. The latter term is frequently loosely and improperly employed, since the premium payable by any given person is not based upon his particular expectation of life, which cannot be foretold, but upon the average obtained from a large number of lives starting from the same age. The "expectation of life" is seldom the measure of the actual span of life in any particular case. The *loading* is the amount added to the cost price, or pure premium, to provide for (1) commission payable to agents for obtaining business, (2) expenses of management, and (3) profits and bonuses.

Broadly speaking, there are two classes of Life Assurance Companies: (1) **Proprietary**, (2) **Mutual Companies**. A *Proprietary Company* is one, the capital of which has been subscribed in the ordinary way by shareholders who are entitled to divide the surplus profits in the manner common to commercial limited companies. A *Mutual Company* is one which has no paid-up capital, and no shareholders, being composed of the policy holders themselves to whom the surplus profits belong.

The profits of an assurance company cannot be arrived at by ordinary commercial methods. They can only be determined by **actuarial valuation**. One or two large Companies are compelled by the magnitude of their business* to prepare a valuation every year. But in the majority of cases the valuation takes place, in accordance with the law, every five years, and is known as the **Quinquennial valuation**. A few notes on general lines may serve to show the necessity for the Actuarial Valuation.

The principal object of the Actuarial Valuation is to determine the exact liability the Company is under in respect of all the policies in force in its name, and thus to fix the reserve, or sum of money to be retained in hand, which, with the future premiums accumulated at the rate of interest adopted for the calculation, will provide sufficient funds to discharge the claims as they fall due, defray office expenditure and create a profit. On the one hand the Assuring Company has undertaken certain risks under its policies; on the other hand the policy holders have undertaken to pay, or have already paid, certain premiums to the Company. In order to

disclose at any given date the financial position resulting from these two facts, it is necessary to ascertain (1) the present value of the Company's risk on its total policies, and (2) the present value of the total premiums payable under the policies. The difference between the present value of the Company's liability on its policies, and the present value of the premiums payable under those policies by the assured is the amount which must be reserved in order that, with the future premiums payable under the policies, the Company may be able to discharge each claim as it falls due.

The rate of compound interest adopted by a Company for its valuation calculations is of course a most important factor. The rate employed for the purpose has gradually decreased, in some cases to 3 per cent., or even to $2\frac{1}{2}$ per cent., whereas the interest actually earned by a Company on its invested funds may be upwards of $3\frac{1}{4}$ per cent. Again, the valuation of the liabilities is not necessarily made on the same basis as that adopted for the formation of the premium. The experience of the office itself in respect of mortality is taken into account, and this experience may be more or less favourable than that disclosed by the Mortality Table on which the premium was fixed. Hence the premiums adopted for valuation purposes may be called *Valuation Premiums*.

If the student will refer to the form of **valuation Balance Sheet** given on p. 508, he will see that this total present liability, when arrived at, is disclosed in the valuation Balance Sheet, and against it is put the total of the Life Assurance Fund available to meet it. The difference between the total liability and the total available funds represents the **surplus**, or **deficiency**, as the case may be. The chief factors which enable an assurance company to show a surplus are: (a) A favourable mortality experience; (b) An economy in the expenses below the figure provided for in the "loading" included in the premiums; (c) The realization of a higher rate of interest from investments than was anticipated; (d) Profits from sundry sources, such as the sale of investments, etc.

It is only out of the surplus thus ascertained that an assurance company can distribute profits to its shareholders, or bonuses on its **With Profit Policies**. The bonus is expressed as a percentage on the sums assured, and commonly varies from 1 per cent. to 5 per cent. per

annum. In some cases it is stated as a percentage for the quinquennial period.

The bonus may be (1) taken in cash either at death or maturity, or earlier if surrendered at a discount; (2) applied in reduction of future premiums, or (3) applied to the reduction of the period during which premiums are payable under the policy.

Beyond certifying to the amount of the Assurance Fund, neither the Accountants nor the Auditors of an Assurance Company have any concern with the quinquennial valuation, which is purely actuarial work.

Many different kinds of life policies are now offered to the public. The broadest line of demarcation is perhaps that between **without profit** and **with profit** policies. The former policies cover the payment of a fixed sum at death, or on the happening of some other agreed event; the latter a fixed sum and also the right to share any bonus distributions that may take place before the policy becomes a claim. *Without Profit Policies* can be obtained from most leading companies at practically identical rates, but the rates charged by companies for *With Profit Policies* vary considerably. The probability that the bonus rates will be maintained also varies. The stability of the bonus distribution is a matter for expert advice, and all that can be said here is, that, when the rate of interest earned is declining, and expenses are increasing at a ratio out of proportion to new business acquired, past rates of bonus are not likely to be maintained.

A person desirous of effecting an assurance must fill in a **proposal form**, the basis of the contract, with full particulars as to age, health and habits. Some details of family history, from the medical point of view, are also necessary. This form must be signed and declared to be true by the proposer, or by the person effecting the assurance if it refers to another. It is necessary in law that the person who effects an assurance on the life of another shall have an **insurable interest*** in the life, that is to say, he must be pecuniarily interested in the life as a creditor, employer, partner, or as the purchaser of a life interest or reversion. It may be mentioned here that the Act of 1909 (§ 36) considerably modifies the

* The Act of 1774 prohibits "gambling or wagering" by means of life assurance. In the middle of the eighteenth century gambling by means of life assurance became a public scandal.

position of Industrial Assurance Companies with reference to "insurable interest," and that the Friendly Societies Act contains restrictions with regard to the insurance of infants.

After medical examination has been passed, and the Company has received satisfactory reports from two friends, the proposer is notified that his proposal has been accepted, and that the first premium will be payable within fourteen days. Subsequent premiums, called **renewal premiums**, are payable quarterly, half-yearly or annually, as may be arranged, and as stated in the policy.

Restrictions are still attached to policies of assurance as to suicide, foreign travel, naval and military service; but some Companies now issue policies "free" of all restriction without increase of premium.

When taking out a life policy the assured should get his age admitted *in the policy*. Production of a certificate of birth or baptism containing the date of birth is sufficient for the purpose. A proved innocent mistake in stating the age would necessitate adjustments when the mistake was discovered.

Assurance Companies are now governed by the **Assurance Companies Act, 1909**, which repealed the Life Assurance Companies Acts, 1870-72, received the Royal assent on December 3, 1909, and, with the exception of § 36, came into force on July 1, 1910. This Act calls for close attention on the part of the accountant, as the schedules appended to it prescribe new forms for the presentation of the accounts of assurance companies. Its chief sections are—

1. The Act refers, with slight exceptions, to all persons or Corporations transacting (a) Life Assurance, (b) Fire, (c) Accident, (d) Employers' Liability Insurance, and (e) Bond Investment business (§ 1).

2. Every Company transacting life assurance business must now place a *permanent* deposit of £20,000 with the Paymaster-General of the Supreme Court. Such deposits were formerly necessary, in the case of British Companies, under the Life Assurance Companies Act, 1870, but were returnable to the Company when its life assurance fund accumulated out of profits reached the sum of £40,000. In addition to the above-mentioned regulation, all *new* companies registered after July 1, 1910, must deposit £20,000 for *each* class of business [(a), (b), (c), (d), and

(e), as above], undertaken by them. There are a few exceptions to this rule, *e.g.* where associations of employers undertake employers' liability risks upon mutual terms (§ 2) or where the Company carried on employers' liability insurance prior to August 28, 1907 (§ 33 (d)). When the separate employers' liability fund has reached the sum of £40,000, the Company may claim the return of the deposit of £20,000, provided a deposit has been made in respect of any other class of business. Similar regulations apply to Companies transacting Bond investment insurance. The provisions relating to deposits do not apply to Fire, Accident or Bond Investment insurance business carried on by Companies formed before the passing of the Act. When complying with the regulation as to deposits permission is asked of the Board of Trade to lodge certain specified securities to the requisite value at the mean market price of the day. These securities must appear in the Board of Trade list of securities. If satisfied on these points, the Board issues a warrant to the Paymaster-General authorizing him to accept the securities. If they are stocks inscribed with the Bank of England they are simply handed in; but registered stocks must be transferred,* in the usual way, to the Paymaster-General. Lastly, an order of Court is obtained authorizing the Paymaster-General to pay the dividends accruing upon the securities to the depositing Company.

3. Separate Revenue Accounts must now be presented for each class of business engaged in by the Company, and for each class of business a separate fund must be kept. Each separate fund is the absolute property of the policy holders of that class and must not be appropriated to any of the Company's other contracts (§ 3). Although, under the terms of this section, the various assurance funds must be shown as separate liabilities, it is not necessary specially to earmark a Company's investments, as being the property of any particular fund.

The allocation of the *Receipts* between the various classes of business does not present much difficulty since the premiums of each class are known, and the interest earned by the aggregate assurance fund can be divided proportionally to the amounts of the separate funds. But the disclosing of the amount of the Income

* As no consideration appears in the transfers, a 5s. stamp may be used.

Tax deducted from the income earned is a new feature, and will, in some cases, need provision in the books for its record. The allocation of the *Expenditure* of an assurance company is not so simple. Such items as "claims paid," "surrenders," and "Commission" offer little difficulty, but there are many payments included in "Expenses" which can only be arbitrarily allocated amongst the various branches. Such items, for instance, as rent, rates, valuation expenses, lighting, stationery, depreciation, and, to some extent, salaries, can only be apportioned by means of estimates. These estimates are prepared by the Company's staff and could be manipulated in order to bolster up unsatisfactory departments, the more so because the Fourth Schedule does not require the liability of each branch, when ascertained by valuation, to be set out separately. It is interesting from the professional accountant's point of view, to note that, as valuation dates, a certificate must be given "signed by the same persons as sign the Balance Sheet" to the effect that, in their belief, the assets set forth in the Balance Sheet are "in the aggregate fully of the value stated therein." On inquiry at the Board of Trade the author's firm were informed that the words "same persons as sign the Balance Sheet" do not in this case include the auditors; an interpretation which will be welcomed in the profession! But the auditors must certify that no part of the various funds has been applied directly or indirectly for any purpose other than the service of the particular class to which it applies. The Board also stated that this requirement does not apply to Life Assurance Companies pure and simple, even though both "industrial" and "ordinary" branches exist.

4. At the end of each financial year every Company must prepare (a) A **Revenue Account** (First Schedule), for each particular class of business, (b) A **Profit and Loss Account** (Second Schedule), except in cases where one class of business only is carried on, and (c) A **Balance Sheet** (Third Schedule).

5. Once at least in every five years every assurance company must cause an actuarial valuation of its position to be made in the forms set out in the Fourth Schedule (§ 5). As, however, the section imposes no obligation upon a Company to employ any particular basis for valuation purposes, or to disclose the separate liability in the several branches, it is not apparent how

the regulation can afford protection to the policy holder against unscrupulous companies.

6. Every assurance company must present a statement of its business in the prescribed form (Fifth Schedule) at the date upon which the accounts are made up for the Quinquennial valuation (§ 6).

7. All the accounts and statements required by the terms of the Act must be deposited with the Board of Trade within six months after the close of the period to which such accounts relate (§ 7). But the Board may, under certain circumstances, grant an extension of time not exceeding three months. Shareholders and policy holders are entitled to copies of the accounts and statements so deposited (§ 8).

The remainder of the Act relates to audit, amalgamation, or transfers, winding up, penalties, exemptions, and various other matters not of immediate moment to the book-keeper.

THE REVENUE ACCOUNT (FIRST SCHEDULE (A))

As was the case under the Life Assurance Companies Act, 1870, the income and expenditure appear upon the reverse sides of the account to those upon which the double entry book-keeper would place them. Seeing that all accrued income and outstanding liabilities are dealt with in the account, it is in no sense a Cash Account. It is therefore to be regretted that the new form was not brought into line with modern accountancy. But this anomaly does not affect the internal book-keeping. The accounts in the General Ledger, from which the Trial Balance is prepared, are closed into the Revenue Account upon the usual lines, and are only reversed for publication.

The first item on the debit side of the account is **The amount of Life Assurance Fund at the beginning of the year.**

This item is the closing entry of the Revenue Account of the previous year from which it has been brought forward. It represents the surplus of the Company's assets over its liabilities, including reserves, apart of course from the liability to its policy holders, which, as has already been explained, can only be ascertained by actuarial valuation. In other words, the Life Assurance Fund represents the surplus which is available to meet the Company's liability under its policies, and includes

the paid-up capital of the Company, which, under the statutory forms, must be passed through the Revenue Account, and is thus merged in the total funds in hand. Any further capital paid up within the year must be set out separately in the Revenue Account as a receipt.

To this extent, therefore, the First Schedule is both a Capital and a Revenue Account. When the income and expenditure applicable to the year have been dealt with in the manner provided by the Schedule a fresh Life Assurance Fund is arrived at, which forms the balance of the Revenue Account, and, in due course, appears in the Balance Sheet where the assets representing the Fund are set forth in detail.

Premiums.—The risk which an assurance company will undertake upon any one life is restricted in amount. No limitations can be given, as they vary with the nature of the risk and the financial circumstances of the assuring company. In some cases, therefore, it becomes necessary for a portion of the risks to be re-assured* with other offices. The First Schedule of the Act stipulates that all receipts must be stated *net*. Therefore premiums paid to other offices for *re-assurances* must be deducted from the gross premium income of the Company. Formerly, re-assurances sometimes appeared as expenditure on the credit side of the Revenue Account. Accounts are kept by the various companies of re-assurance business passing between them, and are usually rendered quarterly.

The item "premiums" appearing in the Revenue Account includes all premiums due but outstanding at the close of the year, excluding, of course, the premiums on such policies as may have lapsed during the year. Policies of life assurance become lapsed, or void, as a general rule when the premiums due thereon are more than thirty days † in arrear. In "Industrial" assurance, under the Friendly Societies Act, 1875, it is essential to

* Re-assurances are probably more numerous in the case of fire risks than in other departments. For example, the "A" Company accepts a risk covering £5,000. As its "limit" for this class of risk is £3,000 the remaining £2,000 is re-insured with the "B" Company. The latter Company issues a "guarantee" that it accepts liability in the event of a claim arising, for the same proportion of the claim actually paid as the amount re-insured with it bears to the amount of the policy.

† In fire insurance fifteen "days of grace" are usually allowed, and in other departments from seven to fourteen days of grace are allowed according to custom.

send notice to policy holders, prior to lapsing their policies. The notice is to the effect that the premiums are in arrear and that "in case of the default of payment of the full amount due within sixteen days the policy will be cancelled and the interest and benefit therein forfeited." Care is taken by assurance companies that they may be in a position to prove the postage of this notice in case of need. All notices are therefore numbered and duplicated and the numbers are recorded and initialled in the postage book. In "ordinary" branch assurance no notice of intention to lapse is legally necessary, but as a matter of practice a renewal notice is invariably sent as a reminder.

In addition to outstanding premiums there will, in some cases, be included in the total premiums taken into account the full premiums due upon policies issued under the **half-credit** system. Under this system one-half only of the premium is payable in cash, the other half is treated as a loan on the policy, and appears, of course, amongst the assets in the Balance Sheet; the *full* premium being taken credit for as income due in the year.

A large proportion of the premium income of an assurance company reaches it through agents, who, as a general rule, deduct the commission due to them on the premiums and remit the balance. Consequently, in most cases, remittances from agents represent *net* figures, and adjusting Journal entries are necessary to arrive at the gross premiums collected, and the amount of the commission and expenses deducted. Journal entries are also necessary to bring the amount of the outstanding premiums into the books at the close of the year. The practice of assurance companies differs somewhat with regard to outstanding premiums. Some Companies deal only with such premiums as are actually payable within the financial period covered by the accounts; other Companies include the balance of the annual premiums, where such premiums are payable by half-yearly or quarterly instalments, on the ground that such unpaid instalments constitute a debt upon the policy in the event of its becoming a claim.

When assessing the value of outstanding premiums as an asset in the Balance Sheet, the student should remember that, as already explained, there is a reserve for valuation purposes, on every policy, representing the liability of the Company at the date of the valuation. This reserve liability almost invariably represents a larger

sum than the outstanding premium treated as an asset. For example, John Smith took out a policy for £500 payable at death. The Company's liability on this policy was valued at £75 at the date of the last valuation, and was duly reserved for. The outstanding premium is taken credit for at £14. The amount treated as an asset is therefore well secured, because were the policy to lapse by non-payment, the reserve liability would be released, while should a claim arise the unpaid premium would be deducted from the amount of the claim. Some Companies quote yearly premiums payable in quarterly instalments, whilst others quote quarterly premiums. In the latter case, provided the last quarterly premium had been paid, nothing would be outstanding.

When the examination candidate is required to prepare a set of accounts from the Trial Balance of an assurance company he should remember that the item "outstanding premiums" has *already* been included in the "premiums," and therefore it only needs to be scheduled in its proper place amongst the assets in the Balance Sheet.

Sometimes premiums are reduced by the issue of bonuses. In such cases it is customary to take credit for the full premium, and to include the bonuses in the appropriate place on the payments side of the account.

There are other points of minor importance affecting the item "premiums," but enough has been said to show that the figure entered in the Revenue Account should be the *true net figure* representing the premium income of the Company for the year, after providing for outstandings and after deducting lapses, re-assurances and premiums belonging to other periods.

The First Schedule of the Act of 1909 makes no provision in the body of the account itself for separating the premium income as between new and old business, but Note S. indicates that this information must be supplied. Where under the old Act this desirable analysis has been made by assurance companies, no objection to the amendment appears to have been made by the Board of Trade.

Considerations for Annuities Granted.—The word "annuity," in addition to its literal meaning—an annual payment—means also the investment of a sum of money to yield an agreed amount at fixed periods. Some particulars of various kinds of annuities have been given

in the Compendium on p. 660. The heading provided in the First Schedule is for the amounts received by the Company from persons who have purchased annuities during the year. The purchase price of annuities is based solely on the age and sex of the purchaser and the rate of interest which the Company expects to earn on its invested funds. As a general rule, no investigation into the family history of the purchaser is made as is the case with life assurance. It is perplexing to the lay mind that tables are not compiled having special reference to "poor lives," but presumably the demand for annuities by this class is not sufficiently strong to afford the necessary data for reliable averages upon which to base suitable rates. It is within the author's knowledge, however, that the keen competition of modern days has rendered it possible, in exceptional cases, to obtain a reduction of the rates ordinarily employed.

It would appear from the notes appended to the First and Third Schedules that the maintenance of a separate Annuity Fund is optional, though the tenor of these notes seems to be somewhat in opposition to the provisions of Section 3 of the Act. Some Companies exhibit separate Annuity Funds, whilst others do not specify the separate liability for annuities granted, the liability being merged in the Life Assurance Fund. It is to be regretted that the new Act does not impose uniformity of practice in this connection. Annuities are, as a general rule, purchased by the payment of a sum down, but contingent or deferred annuities, purchased by annual payments over a certain period, are also granted. Some Companies treat these payments under the head of "premiums"—apparently the most suitable course.

Interest, Dividends and Rents.—This heading embraces the yearly income of the Company derived from interest and dividends on its investments and the rents of its Freehold and Leasehold properties. As was explained in the case of Premiums, this item should include all the income from these sources applicable to the year. Some portion of this income, although payable within the year, will be outstanding, and must be brought into account by means of Journal entries. Items will also exist which, although not payable within the period, have to an extent, *accrued* during the year. For instance debenture interest payable on September 30 and March 31, will have "accrued" for three months on December 31, and,

to this extent, may be brought into account.* But the practice of assurance companies is not uniform, and, in some cases, accrued income is ignored. This is another point which the new Act might have conveniently dealt with. Although it may be more accurate to include accrued interest, the practice undoubtedly leads to some confusion and difficulty, and since the income anticipated for one year must be excluded from the next, no advantage in the long run appears to be gained. In all cases where outstanding or accrued income has been brought into account the corresponding entries must, of course, appear in the Balance Sheet as assets under appropriate headings.

The student will note that the First Schedule requires the total amount of income tax payable on the income for the year to be set out so that the net income may be shown. Hitherto, some Companies have shown their gross income, and have included the tax as a payment on the expenditure side of the Revenue Account, while others have shown their net income but have not disclosed the amount of the income tax deducted. The new regulation brings all Companies into line in this respect. The above heading also includes interest payable on loans on the Company's policies, on reversions and other secured loans. Discount received on claims paid in advance should also be included under this heading.

The rents taken into account should be the net rents received after paying all outgoings, such as rates, taxes, repairs, etc.

In cases where the Company owns and occupies its own premises, it is usual to charge a fixed rent as income under this heading, a similar amount being charged under the appropriate head on the expenditure side of the account.

The student will have gathered from the preceding pages that the amount of interest earned by an assurance company upon its funds is a factor of paramount importance in the policy of the Company. A responsible part of the duties of the management is the selection of investments yielding as large a return as is compatible with the security of the Capital. Reference has already been made to the importance which the rate of interest

* Where accrued interest has been brought into account, investments must be taken at actual cost or less, and not at current market prices, as the latter valuation includes the accrued interest.

earned assumes when the quinquennial valuation is in progress and in the compilation of the Company's tables of rates. The student may have noted that it is the practice of many Companies to disclose from time to time the rate of interest earned.

In order to arrive at the strict rate of interest earned algebraic knowledge is necessary, but it can be obtained simply, and with approximate accuracy as follows—

Example—

Funds at commencement of year . . .	£ 250,000
„ end „ . . .	350,000
	<hr/>
	550,000
Less Interest earned during the period . . .	10,500
	<hr/>
	2539,500
Average Funds say . . .	<hr/> £269,750

$$\text{Rate of interest earned} = \frac{10,500 \times 100}{269,750} = £3 \text{ } 17\text{s. } 10\text{d. per cent.}$$

Other Receipts.—The wording of the First Schedule indicates that all receipts other than those included in the preceding headings must be separately specified. If any fresh issue of capital has taken place the amount realized will come under this head. So also will fines collected for the revival of lapsed policies, or fees* received, or profits made by the Company. Profits realized on the sale of investments will also be included unless they are taken direct to the Reserve Account. As these profits, in the case of an assurance company, are capital profits, it is more satisfactory to carry them to reserve.

Turning now to the expenditure side of the First Schedule, we come first to—

Claims.—This item should include all claims actually paid during the year and all claims admitted during the year. There must always be claims outstanding at the date on which the accounts are closed, *e. g.* where the title of the claimant and the legal proof of death are still under investigation. All bonuses and other benefits attached to the policies must also be reserved for. It is the practice of many companies to bring into account all claims of which they have been advised prior to the close

* Fees received for the transfer of shares, or for the registration of assignments or other documents.

of the year. Theoretically this is sound, but it has drawbacks, and results in some cases in over-statement of claims. Outstanding claims are brought into the books by means of Journal entries, and appear in the Balance Sheet as liabilities.

The First Schedule requires the division of claims under two headings: (a) **Death**, and (b) **Maturity**. The former refers to claims payable on the death of the assured, the latter to **endowment policies**, which secure the payment of an agreed sum on the attainment of a specified age or at previous death. Endowment assurance is a popular and suitable form of investment for those in receipt of fixed incomes.

Surrenders.—This item consists of the amounts paid to policy holders who have given up, or “surrendered,” their policies, either because they did not desire, or were unable, to continue their contracts. It also includes sundry losses incurred in connection with the Company’s policies. For example, where policies issued on the half-credit system have lapsed, the unpaid portions of the premiums treated as loans, as previously explained, become losses, and must be written off and included in the above item. Loans outstanding upon lapsed policies are similarly treated. There is, of course, no actual loss in these cases, as the amounts advanced are always within the surrender values of the policies. When a policy has lapsed, however, the asset account, representing the loan, no longer holds good, and is closed by transferring the balance to the Surrenders Account. The amounts paid for the surrender value of bonuses as well as for the surrender value of the “bare” policies must also be included, but the items need not be separated. The amounts paid upon surrender depend upon the age of the policy, and the particular table of rates under which the policy was issued. The payments range from one-third to two-thirds of the actual amount of the premiums paid, plus, in many instances, the cash value of any bonuses. The assured does not get the full reserve value of his policy because the withdrawal of policy holders unfavourably affects the mortality experience of the Company. Surrenders also increase the ratio of expenses to receipts. The general practice is to deduct about 33½ per cent. from the reserve.

Annuities.—These are the payments made during the year in fulfilment of the Company’s annuity contracts,

the consideration for which was dealt with on the other side of the Revenue Account. The item must, of course, include all annuities due, but not paid. The great majority of annuities are payable half-yearly, though other terms of payment are arranged to suit the convenience of annuitants. Income tax is deducted from all annuities before payment, except where exemption forms have been lodged by annuitants with the Company. In such cases the annuity is paid in full, and the tax is subsequently recovered by the Company from the Inland Revenue authorities. Where income tax is deducted by the Company; the sums so deducted may be retained by the Company provided the taxed income of the undertaking exceeds the total amount paid by way of annuities during the year (*Edinburgh Life Assurance Company v. The Lord Advocate*).

Bonuses in Cash.—When a bonus has been declared, the policy holder has, usually, the option of (1) allowing his share of the bonus to accumulate until his policy becomes a claim,* or (2) immediately drawing in cash a sum somewhat smaller than his share, or (3) having the bonus applied to the reduction of future premiums. The above heading provides for such bonuses as have been drawn *in cash* during the year.

Bonuses in Reduction of Premium.—The full premiums payable under these policies are included on the income side of the Revenue Account, and those portions of the premiums credited as paid, in lieu of bonus, are set out under this heading.

Under the Act of 1870 no provision was made for the separation of the two preceding items, and considerable diversity existed in the treatment of them.

Commission.—This heading embraces all sums paid by a Company to agents and others as remuneration for obtaining business. An *over-riding commission* is sometimes paid to district agents on the business introduced by the agents in the districts they control.

Commission due on all outstanding premiums taken into account must be provided for.

The commission paid to agents varies from 10 per cent. to 25 per cent. on the first premium payable on ordinary branch new business introduced by them, and 2½ per cent. to 5 per cent. on the renewal premiums collected by the agent. In some cases a single commission, called

* Known as a reversionary bonus.

a "flat" commission, is paid on the first premium ranging from 25 per cent. to 50 per cent., no commission being paid on renewals. In Industrial assurance the agents' commission is usually reckoned at so many times the amount of the premium. For example, in the case of a weekly premium of 1*d.* the commission would be 1*s.* 2*d.*, or 14 times the premium. The commission paid to agents introducing annuity business usually amounts to 1 per cent. on the purchase price of the annuity.

Expenses of Management.—Under this head appear the administration expenses incurred in carrying on the business, *e.g.* rent, rates, taxes, salaries, advertising, law costs, medical fees, depreciation of furniture, etc. In accordance with general commercial practice, separate Ledger Accounts are kept for the chief kinds of expense, including the usual "Profit and Loss" items, and at the end of the year these various expense accounts are closed into a General Account under the above heading. No details of this heavy item are required by the terms of the Act; but hitherto it has been the practice of many Companies to show, in an inner column, some of the chief details composing the total. All expenditure held in suspense as an asset in the Balance Sheet, *e.g.* Preliminary Expenses, must be separately set out in the Revenue Account (see Note 4, First Schedule).

Other Payments.—The items included under this heading must be separately stated, the designation "Sundries" being inadmissible. Appropriate payments for inclusion are dividends and bonuses paid to shareholders, depreciation on Investments, transfers to Reserve Fund, Bad Debts, etc. Where shareholders are paid a dividend in the form of fully paid shares, the amount of the dividend will appear as a payment under this heading, and a similar amount must be entered on the other side of the account representing the fresh issue of capital that has been made.

Amount of Life Assurance Fund at the End of the Year.—This item forms the "balance" of the account, and appears again in the Balance Sheet as representing the surplus of the Company's assets over its liabilities. As already explained, this balance forms the starting item of the Revenue Account for the next period. Students appear to be confused because the "Amount of Funds at the end of the year" is sometimes omitted in examination

FIRST SCHEDULE.

N.B.—Where marine insurance business or sinking fund or capital redemption insurance business is carried on, the income and expenditure thereof to be stated in like manner in separate accounts. Any additional businesses (including employers' liability insurance business transacted out of the United Kingdom) to be shown in a separate inclusive general account.

(A).—Form applicable to Life Assurance Business.

Revenue Account of the _____ for the Year ending _____ in respect of Life Assurance Business.

	Business within the United Kingdom.	Business out of the United Kingdom.	Total.	Business within the United Kingdom.			Total.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Amount of life assurance fund at the beginning of the year :-				Claims under policies paid and outstanding :-			
Premiums :-				By death			
Consideration for annuities granted				By maturity			
Interest, dividends and rents	£ s. d.			Surrenders, including surrenders of bonus			
Less income tax thereon				Amittals			
				Bonuses in cash			
				Bonuses in reduction of premiums			
				Commission			
				Expenses of management			
				Other payments (accounts to be specified)			
Other receipts (accounts to be specified)				Amount of life assurance fund at the end of the year, as per Third Schedule			

NOTE 1.—Companies having separate accounts for annuities to return the particulars of their annuity business in a separate statement.

NOTE 2.—Companies having both Ordinary and Industrial branches to return the particulars of the business in each department separately.

NOTE 3.—Items in this Account to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the Company's risks.

NOTE 4.—If any sum has been deducted from the expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

NOTE 5.—Companies having life assurance effected during the year of account to be appended to the above Account showing separately as respects business within and business out of the United Kingdom, the number of policies, the total sums assured, the amount received by way of single premiums, and the amount received by way of annual premiums.

NOTE 6.—The columns headed "Business out of the United Kingdom," in the case of companies having their head office in the United Kingdom, apply only to business secured through Branch Offices or Agencies out of the United Kingdom.

(B.)—Form applicable to Fire Insurance Business.

Revenue Account of the _____ for the Year ending 19____ in respect of Fire Insurance Business.			
£	s. d.	£	s. d.
Amount of fire insurance fund at the beginning of the year :—		Claims under policies paid and outstanding	
Reserve for unexpired risks		Commission	
Additional reserve (if any)		Expenses of management	
Premiums		Contributions to fire brigades	
Interest, dividends, and rents		Other payments (accounts to be specified)	
Less income tax thereon		Amount of fire insurance fund at the end of the year as per Third Schedule :—	
Other receipts (accounts to be specified)		Reserve for unexpired risks being per cent. of premium income for the year	
		Additional Reserve (if any)	
		£	

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(D.)—Form applicable to Employers' Liability Insurance Business.

Revenue Account of the _____ for the Year ending _____ 19 _____ in respect of Employers' Liability Insurance Business transacted within the United Kingdom.

£ s. d.	£ s. d.	£ s. d.
Amount of employers' liability insurance fund at the beginning of the year :-		
Reserve for unexpired risks -		
Total estimated liability in respect of outstanding claims -		
Additional reserve (if any) -		
Premiums -		
Interest, dividends, and rents -		
Less income tax thereon -		
Other receipts (accounts to be specified) -		
		£

NOTE 1—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(E).—Form applicable to Bond Investment Business.

Revenue Account of the _____ for the Year ending _____ 19____ in respect of Bond Investment and Endowment Certificate Business.

Amount of Bond Investment and Endowment Certificate Fund at the beginning of the year	£ s. d.	£ s. d.	Claims under bonds and certificates, paid and outstanding	£ s. d.
Additional reserve (if any)			Commission	
Premiums			Expenses of management	
Interest, dividends, and rents			Other payments (accounts to be specified)	
Less income tax thereon	£ s. d.		Amount of Bond Investment and Endowment Certificate Fund at the end of the year as per Third Schedule	£ s. d.
Other receipts (accounts to be specified)			Additional reserve (if any)	
		£		£

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

questions. In such cases prepare the Revenue Account in the ordinary way, the balance disclosed is the amount of the "funds at the end of the year" to be included in the Balance Sheet.

Forms (B), (C), (D), and (E), First Schedule

These forms of Revenue Account apply respectively to Fire, Accident, Employers' Liability, and Bond Investment Insurance.

They are almost identical with Form (A) already explained in detail. The alterations are few and unimportant, and the only point to which attention need be called is the provision, on the debit side of the various forms, for the deduction from the premium income of a *Reserve for unexpired risks*.

As the premiums on insurance policies are paid in advance, it is clear that, at any given date, some policies will be in force, the premiums on which have been paid for a period that extends beyond the year dealt with in the Current Accounts. In consequence of these unexpired risks the whole of the premium income has not been earned at the closing date. There are various methods of estimating the amount which should be reserved under this head. In any case the estimate can only be approximate, and should be based as far as possible upon past experience of the particular risks covered by the premium income.

The general practice of the leading insurance companies is to reserve as follows :—

Fire.— $33\frac{1}{3}$ per cent. to 40 per cent. of the premium income. This is usually recognized as the minimum reserve necessary.

Accident.—40 per cent. of the net premium income after deducting re-assurances.

Employers' Liability.—40 per cent. of the net premium income, care being taken that adequate allowance is made for outstanding claims, as, in some cases, annuities may be payable for long periods.

PROFIT AND LOSS ACCOUNT (SECOND SCHEDULE)

This form applies only to Companies carrying on more than one class of business.

As already explained, the profit or loss upon life

SECOND SCHEDULE.

PROFIT AND LOSS ACCOUNT OF THE		FOR THE YEAR ENDING	19 .		
	£ s. d.			£ s. d.	
Balance of last year's account	- - -	Dividends and bonuses to shareholders	- - -		
Interest and dividends not carried to other accounts	- - -	Expenses not charged to other accounts	- - -		
Less income tax thereon	- - -	Loss realised (accounts to be specified)	- - -		
Profit realised (accounts to be specified)	- - -	Other payments (accounts to be specified)	- - -		
Other receipts (accounts to be specified)	- - -	Balance as per Third Schedule	- - -		
	£			£	

assurance business can only be ascertained by actuarial valuation. This schedule provides for the combination of the profits or losses made upon classes of business other than life assurance. Any other income applicable to the combined business, and not to a special department, is collected by means of this account. On the other side of the account payments and expenses not chargeable to any particular department are set out. The schedule practically takes the place of the net Profit and Loss Account of an ordinary trading concern.

BALANCE SHEET (THIRD SCHEDULE)

Dealing first with the liability side of the Balance Sheet, the student will note that the various items composing the balance of the Revenue Account are separated and entered "short." The total of these items when extended agrees, of course, with the balance of the First Schedule, and forms the amount of the Company's funds at the end of the year, or, in other words, the surplus of the assets over the liabilities.

Shareholders' Capital.—As already explained, the amount paid up on the Company's shares has been brought into the accounts by means of the Revenue Account, and forms part of the balance of that account. The amount of the paid-up capital is set out separately in the analysis of the funds for general information. No capital will, of course, appear in the case of mutual companies. If shares have been issued at a premium, the amount of such premium should be set out as a separate fund or included in the Reserve Fund.

Assurance and Insurance Funds.—The next items set out in the Schedule represent the various departmental funds as shown in their respective Revenue Accounts. It is important that the student should remember that these various funds are not liabilities in the ordinary book-keeping sense, but represent amounts available to meet the liabilities of each department when ascertained by valuation.

Annuity Fund.—This item represents the Company's liability to its annuitants as disclosed by valuation. The student will note that the necessity for the separate statement of this fund appears to be doubtful. In many cases the liability is merged in the Life Assurance Fund.

Sinking Fund and Capital Redemption Fund.—These items represent the Company's liability on "Sinking Fund Policies," sometimes known as "Capital" or "Leasehold

Redemption Policies." Under these policies the Company contracts to pay, in consideration of an annual premium, a fixed sum at a stated future date. These policies involve no life risk; they represent simple accumulation of premiums at compound interest (usually 3 per cent.), and are commonly used to repay debentures, or to replace wasting assets, as. *e. g.* leaseholds.

Profit and Loss Account.—This is the credit balance of the Profit and Loss Account (Second Schedule) in cases where such an account is necessary.

Other Funds.—This heading embraces such items as Investment Reserve Funds now maintained by the majority of the leading Companies. Other items which cannot be included under any of the preceding headings must be set out separately.

The total of the above headings is now extended in the second cash column, and forms the total of the Funds at the end of the year, as shown in the Revenue Account (First Schedule), and represents the excess of the assets over the liabilities.

Claims Admitted but not Paid.

Annuities Due but not Paid.—These items were explained when the Revenue Account was dealt with. They represent the liability for the accrued outstandings taken into account when preparing the First Schedule.

Other Sums Owing by the Company.—If any liabilities exist which are not covered by any of the preceding headings they must be separately set out under the above designation. Loans, Bank Overdrafts, Income paid in advance (premiums or interest) are illustrations of such items. Small sums outstanding for commission due to agents, debts due to tradesmen, and so on, would be included as "Sundry Creditors."

Turning now to the asset side of the Balance Sheet, the student who is familiar with the requirements of the Act of 1870 will note that the Third Schedule of the new Act provides for more detail and analysis of a Company's mortgages, loans, and investments than were required by the former Act.

Mortgages.—Distinction must be made between those loans on mortgage "within" and those "without" the United Kingdom.

Loans.—*Loans on Rates* are loans advanced to various local authorities on the security of the Rates. They are usually repayable by a number of equal half-yearly instalments, and differ from an ordinary mortgage in that

they are commonly for a fixed term, and cannot be called in. *Loans on Life Interests and Loans on Reversions.*—These are loans secured by reversions, under will, to property or investments on the death of the tenant for life. If the reversion is contingent and not absolute a life policy covering the contingent life is required. *Loans on Stocks and Shares* are loans secured by the deposit or transfer of scrip representing sound investments. *Loans on the Company's policies.*—In many cases these form the largest loan business of the Company. They are covered by the deposit of the policies, and an equitable charge upon them in the Company's favour. Companies greatly esteem these loans, which are always within the surrender values of the policies. *Loans on Personal Security.**—Such loans are practically confined to offices with a legal connection, whose clients are doubtless able to offer advantageous business under this head.

Investments.—Most of the details required need no comment, but a few notes on some of the headings may be useful. *Deposit with the High Court.*—These are securities representing the Company's compulsory deposit (see p. 484). No certificate of incorporation is obtainable by new companies until the required deposit has been made. *Rent Charges*—These are loans raised under the Lands Improvements Act upon the security of property, and are usually repayable by instalments upon the annuity system. *Freehold Ground Rents* are largely purchased by Insurance Companies, and combine present income with reversionary benefits. In some cases the annual ground rent may not afford a high rate of interest upon the investment, but, when the property "falls in" upon the expiration of the lease, the addition to the Company's assets and income is frequently considerable. *Agents' Balances*—i. e. premiums collected by agents, but not yet remitted to the Head Office.—When bringing these figures into the accounts allowance must be made for all commission due to agents, and for possible bad debts. *Other assets* would include such items as Furniture and Fixtures, Stock of Stationery, Policy Stamps, Preliminary Expenses, etc.

The student should carefully study the notes appended to the Balance Sheet. The more important of these notes are: *Note 2*, which calls for a Balance Sheet in

* Loans are sometimes advanced on the policies of other Companies.

(Form referred to under Heading No. 7 in Fourth Schedule (A).)

VALUATION BALANCE SHEET of

as at

19

Dr.	Cr.
£	£
To net liability under Life Assurance and Annuity transactions (as per summary statement provided in Fourth Schedule (A))	By Life Assurance and Annuity funds (as per balance sheet under Schedule 3)
To surplus, if any	By deficiency, if any

any fund has been utilized for any purpose other than the class of business to which it applies (see p. 486).

The main object of the new requirements in the Act of 1909 appears to be to bring the various insurance companies into line in the statement of their accounts, so that comparison can be made between them. The present forms are in some respects an improvement upon those of 1870, but it is to be seen whether the assurance companies will place as many different interpretations upon the headings in the new schedules as they did upon those in the old.

VALUATION FORMS (4TH AND 5TH SCHEDULES)

The Fourth Schedule gives the basis of valuation, and the Fifth Schedule the forms which apply to the valuations necessary under Section 5. The form of the Valuation Balance Sheet applicable to Life Assurance (Fourth Schedule) is given on the previous page.

BOOKS OF ACCOUNT

The business of an assurance company is practically a cash business, and the efficiency of a set of books used by an assurance company is to be judged by the skill with which provision is made for the tabulation of the receipts and payments in accordance with the needs of the particular Company. Columnar Cash Books and Journals are eminently suitable for assurance work, and are largely used; the character, capacity, and number of the books employed depending upon the objects, requirements and magnitude of the business. But seeing that the final accounts must be presented in the statutory form, it is clear that the books of account must also be designed to afford the information necessary to compile these statutory accounts with the least possible trouble. The scheme here outlined is applicable mainly to ordinary branch assurance. Industrial assurance, entailing the collection of an enormous number of small weekly and monthly premiums, requires special treatment. Companies undertaking industrial assurance are few in number, and the necessary amplifications in the system of book-keeping employed, although very interesting, are too numerous to be treated here. Besides, the examination candidate would not be expected to possess knowledge of so technical a subject.

Expenditure Cash Book

[illegible]

In cases where the bulk of the expenses of management are recorded in two columns, the totals entered would be carried to a subsidiary book for detailed analysis.

Receipts Cash Book

[illegible]

Cash Books

The great majority of assurance companies keep separate Cash Books for receipts and payments. The analysis columns required are so numerous that space for them cannot conveniently be afforded in a single book.

Receipts Cash Book.—A ruling commonly employed for this purpose is given on the previous page. The columns

AGENTS' DEBIT JOURNAL.

Agent.	Town.	Premiums on new Policies.	Renewals.	Other Debits.	Total.	Remarks.

AGENTS' CREDIT JOURNAL.

Agent.	Town.	Lapses.	Premiums on New Pol- icies.	Renewals.	Other Credits.	Total.

provided can be increased or diminished to meet particular needs. The Cash Book is kept and posted on lines common to all columnar Cash Books (see p. 354 *et seq.*). Folio columns are provided for items which must be posted separately, such as capital receipts and payments. The columns headed "Month," and "Number of Policy" are inserted for convenience of reference, every policy being identified by an official number and the month in which the premium falls due. In some large Companies the Receipts Cash Book is subdivided into a number of Cash

Books, for example, Head Office Premiums Cash Book, Agency Remittances Cash Book, Loans Cash Book, Rents Cash Book, and so on. In cases where a number of subsidiary Cash Books are employed all receipts not applicable to one or other of the sub-Cash Books will be grouped and analyzed in a *General Cash Book*. Usually the daily or weekly totals of the sub-Cash Books are carried to appropriate columns in this Cash Book. In any case, the books must be so designed that the total receipts of all classes and from all sources are conveniently marshalled for posting purposes.

Expenditure Cash Book.—A common form is given on page 510. In many cases a number of subsidiary Cash Books are employed—the totals, daily or weekly, of these Cash Books being brought into the “Main” or “General Cash Book. If separate cashiers are entrusted with funds for the service of the subsidiary Cash Books, the “Imprest” system may be usefully adopted. Separate Cash Books are commonly employed for *Claims* and for each class of assurance, *i.e.* “ordinary” and “industrial.” *Loans on Policies.*—In cases where the number of these loans is heavy, they are usually recorded in a separate Cash Book. *Expenses of Management, Surrenders, and Annuities* are also classes of expenditure for which separate Cash Books are usefully employed in many cases.

Petty Cash Book.—No rulings of this book need be given here, as the principle of its construction is the same as that with which the student is already familiar. In most cases this book is provided with analysis columns for items of expenditure, forming part of the heading “expenses of management.” Such, for example, as medical fees, policy stamps, salaries, printing, postages, and any other sub-divisions of the item for which independent totals are desirable.

Ledgers

The number of ledgers employed by particular Companies will depend on the nature and magnitude of the Company's business. In most cases, however, separate Ledgers will be kept for *Loans, Mortgages, and Investments*. Indeed, in some cases the Ledgers are almost as numerous as the analytical headings of the assets which appear in the Third Schedule of the Act of 1909. A form of *Investment Ledger* has already been

given on page 449. The rulings of this book can readily be adapted to record any kind of investment. Separate *Agents Ledgers* are always kept. If the Company is a large one, these Ledgers will probably be sub-divided into geographical districts. Particulars of all premiums debited to the Company's agents for collection, together with details of the agents' remittances, are shown in these books. All supplemental Ledgers should, when possible, be self-balancing. The General Ledger, as in the case of Banks, contains the "total" accounts representing each separate Ledger, so that from this ledger a Trial Balance can be rapidly extracted at any time. The accounts appearing in the General Ledger afford the information for the preparation of the Revenue Account and Balance Sheet in the First and Third Schedules of the Act of 1909. The detailed balances of the supplementary Ledgers must of course agree with their respective "total" accounts in the General Ledger. The material for posting the supplemental Ledger is obtained from the totals of the analysis columns of the various Cash Books. A *Revenue Ledger* is frequently kept as a separate book. This Ledger contains all the debit and credit accounts necessary for the construction of the First Schedule. The "Expenses of Management" account is, in practice, considerably sub-divided. Separate accounts are kept for the chief items of expense composing the total. At the end of the year these accounts are closed into the main account.

The Journal

The Journal occupies an important place in assurance book-keeping. The student is already aware that the necessary statutory accounts are not cash accounts, but that they embrace all outstanding income and expenditure. At the close of the year it is necessary therefore to pass Journal entries through the books for all outstandings, *e.g.*—

Outstanding Premiums Account Dr.

to Premiums Account.

for premiums outstanding as on December 31, 1910.

Outstanding Interest, Rents and similar items of income are treated in like manner through the Journal. So, too, is outstanding expenditure, *e.g.*—

Claims Account Dr.

to Outstanding Claims Account.

for claims admitted but not paid as on December 31, 1910.

Outstanding surrenders, bonuses, commission, and expenses are similarly treated. Any one who has had practical experience of assurance work, especially perhaps in the capacity of auditor, will know that these Journal entries frequently present considerable difficulties, and need careful preparation and investigation to ensure that the figures passed into the accounts are strictly accurate. The Journal also contains the numerous inter-departmental transfers made from time to time, particularly at the close of the year. Where a Company's investments are numerous, it is usual to keep an *Interest Journal* showing the interest, gross and net, due on the Company's investments, suitable rulings being provided for the purpose. An *Agents Debit Journal* will also be necessary in which the premiums due each month are marshalled and debited to the agents responsible for their collection. Similarly an *Agents Credit Journal* is used to collect and arrange all items which need crediting to the agents. Simple forms of these two Journals are given on page 511.

Books of Record

In addition to the books of account, described above, the business undertaken by an assurance company requires the use of a large number of books of record, such as *Head Office New Premiums Book*, *Branches New Premiums Book*, with similar books for *Renewals*, *Commission Books*, *Policy Registers*, *Records of Lapsed and Surrendered Policies*, and a number of *statistical books*, with detailed information necessary from an actuarial point of view. Although the Company's accountant should be familiar with these books, they are not under his control, and, from the student's point of view, they need no explanation here. Finally, it may be noted that the "card system" is extensively and advantageously employed in assurance book-keeping, particularly where industrial assurance is undertaken.

EXERCISES.

24A.

1. Is there any difference between the terms "Assurance" and "Insurance"?
2. What document forms the basis of the Contract between the Assurance Company and the assured?
3. In what different ways may the premiums on life policies be paid?

4. Explain the difference between a "Mutual" and a "Proprietary" Company.
5. What is a "Quinquennial Valuation," and what does it show?
6. Give the form of a Valuation Balance Sheet.
7. How does an Assurance Company accumulate a "Surplus"?
8. What is a "With Profit policy"?

24b.

1. What are Mortality Tables? What Mortality Tables are now in most frequent use?
2. What is a "Bonus"? How are Bonuses distributed by Assurance Companies?
3. Are any restrictions attached to policies of life assurance?
4. Under what Act are Assurance Companies now governed?
5. What deposits are necessary in the case of Assurance Companies registered after July 1, 1909?
6. Explain how the deposit is made.
7. Give the form of the First Schedule to the Act of 1909.
8. What does the Fourth Schedule to the 1909 Act contain? Does it differ materially from the requirements of the Act of 1870?

24c.

1. What is a "pure" or "net" premium?
2. What is a Half-credit Policy? How are the premiums on such policies treated in the Revenue Account?
3. Must every Assurance Company publish a Profit and Loss Account?
4. What is the difference between "Industrial" and "Ordinary" assurance business?
5. What do you understand by the term "loading" in connection with assurance business?
6. What are "re-assurances"? How are they treated in the published accounts?
7. Under what circumstances can a policy of assurance be "lapsed"?
8. How are (a) outstanding claims, (b) outstanding interest, and (c) outstanding premiums dealt with in the published accounts of an Assurance Company?

24d

The undermentioned balances form part of the Trial Balance of the Blankshire Assurance Company, Ltd., as on December 31, 1910.

Prepare the Revenue Account of the Company and show the amount of the Life Assurance Fund at the end of the year.

Amount of Life Assurance Fund at the beginning of the year, £1,470,562; Claims: By death, £76,980, by maturity, £56,420; Premiums, £210,572; Expenses of Management, £19,890; Commission, £36,541; Consideration for annuities granted, £10,620; Interest, Dividends and Rents, £52,461; Income Tax paid on preceding items, £3,060; Fines, £92; Surrenders, £21,860; Annuities paid, £13,420; Bonuses paid in cash, £9,450; Bonuses paid in reduction of premiums, £2,500; Preliminary Expenses (balance), £600.

Answer.—Fund at the end of year, £1,497,586.

24E.

From the following Trial Balance prepare the Revenue Account and Balance Sheet of the Herts and Essex Assurance Company, Ltd.

TRIAL BALANCE, June 30, 1911.

	£	s.	d.	£	s.	d.
Loans on Life Interests	4,281	0	0			
Deposit with the High Court (Consols)	20,000	0	0			
Freehold Ground Rents	168,421	0	0			
Surrenders	21,104	0	0			
Premiums				365,982	0	0
Profit on Sale of Investments				10,824	0	0
Annuities paid	7,681	0	0			
House Property	239,888	0	0			
Agents' Balances	6,824	0	0			
Cash at Bank (Current Account)	12,724	0	0			
Cash in hand	354	0	0			
Office Furniture	1,500	0	0			
Stock of Policy Stamps in hand	168	0	0			
Mortgages in the United Kingdom	661,421	0	0			
Mortgages out of the United Kingdom	206,490	0	0			
Loans on public rates	174,692	0	0			
Loans on Company's policies	498,321	0	0			
British Government Securities	221,640	0	0			
Indian Government Securities	121,621	0	0			
Foreign Government Securities	142,520	0	0			
Railway Debentures	528,241	0	0			
Outstanding premiums	21,641	0	0			
Claims admitted but not paid ✓				58,421	0	0
Sundry Trade Creditors ✓				7,724	0	0
Life Assurance Fund at the beginning of the year				2,800,510	0	0
Consideration for annuities granted				12,272	0	0
Interest and Dividends and Rents (Gross)				120,682	0	0
Income Tax paid thereon	7,139	0	0			
Claims. By death	172,681	0	0			
Claims. By Maturity	104,728	0	0			
Bonuses in Cash	4,222	0	0			
Commission	9,872	0	0			
Expenses of Management	18,241	0	0			
	<u>£3,376,415</u>	<u>0</u>	<u>0</u>	<u>£3,376,415</u>	<u>0</u>	<u>0</u>

Answer.—Assurance Fund at end of year = £2,964,602.
Balance Sheet totals = £3,030,747.

24F.

Prepare from the following balances the Revenue Account of the East Anglia Assurance Company for the year ended June 30, 1911, and the Balance Sheet as on that date.

Life Assurance Fund at the beginning of the year, £3,038,896; Claims paid and outstanding: By death, £152,288, by maturity, £45,009; Surrenders, £25,578; Premiums, £604,122; Consideration for annuities granted, £161,740; Registration and Transfer fees, £152; Bonuses paid in cash, £1,206; Bonuses in reduction of premiums, £1,370; Annuities, £92,641; Commission, £16,547; Expenses of Management, £50,092; Interest, Dividends and Rents, £157,590; Income Tax paid thereon, £10,025; Centenary bonus to Staff, £3,500; Mortgages within United Kingdom, £811,050; Mortgages out of United Kingdom, £10,950; Loans on Public Rates, £25,462; Loans on Life Interests, £162,120; Loans on Society's Policies within their surrender values, £482,646; Deposit with High Court, £20,000; British Government Securities, £52,000; Municipal Securities, £10,500; Indian Government Securities, £42,800; Foreign Government Securities, £182,920; Railway Debentures, £1,562,451; Agents' Balances, £97,405; Outstanding Premiums, £51,421; Outstanding Interests and Rents, £115,621; Sundry Debtors, £1,661; Cash in hand, £69,651; Claims admitted but not paid, £66,860; Annuities due and unpaid, £151; Interest received in advance, £20,621; Sundry Creditors, £21,682; Reserve for outstanding commission and expenses, £24,500.

Answer.—Assurance Fund at end of year = £3,564,244.
Balance Sheet totals = £3,698,058.

CHAPTER XXV

THE FORM OF PUBLISHED ACCOUNTS

THE average student of Book-keeping has, as a rule, but little chance of examining examples of actual accounts prepared for the information of the partners of a private concern, or for publication to the shareholders of a Limited Company.

The Author's experience is that the consideration of sets of "live" accounts is both interesting and instructive to the intelligent student. Accordingly the accounts of a few well-known and representative undertakings are here given, with brief explanatory comments when such appear to be necessary or useful. Where the accounts relate to the affairs of private firms fictitious names have been substituted.

As a rule, the accounts of Limited Companies are published annually, although in the case of Banking and financial houses, half-yearly meetings are generally held at which the accounts for the past half-year are presented to the shareholders.

In private partnerships the period covered by the accounts is fixed by the Articles of Partnership, but in most cases they are prepared once a year only.

A careful perusal of the specimen accounts which follow will reveal to the student a wide divergence of form. This practical illustration will convince him of the un-wisdom of attempting to dogmatically advocate the adoption of any one stereotyped form of account to meet the varying needs of different undertakings.

Many elements enter into and decide the final form in which accounts are published, *e. g.* the special circumstances surrounding the particular business, the extent to which it is wise to disclose trade details for the information of rivals or the public, the personal opinions (or fads) of the Directors or Auditors, and so on.

The student must not assume that, in the Author's opinion, the accounts which follow are necessarily presented in a theoretically ideal form, or in a form most suitable to the needs of the respective undertakings. They are set out exactly as they were published, and are presented to the student for examination and consideration.

The Author is indebted to the various Directorates for kind permission to reproduce the accounts which appear in this chapter.

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THE UNION OF LONDON & SMITHS BANK, LTD.
PROFIT AND LOSS ACCOUNT for the Half-year ended
December 31, 1908

Dr.	£	s.	d.		£
Interest allowed to Customers ...	171,864	6	6	Profit unappropriated on June 30, 1908	193,839
Salaries, Contributions to Pension Fund, and other expenses at Head Office and Branches ...	215,749	4	9	Gross Profit for the half-year ending December 31, 1908, after making provision for all bad and doubtful debts and payment of Income Tax	591,198
Rebate on Bills not due	29,077	5	11		
Dividend on 229,341 Shares at 15s. 6d. per Share, equal to a rate of 10 per cent. per annum	£177,739	5	6		
Balance, being undivided profits carried forward to the next half-year	190,607	18	4		
	368,847	8	10		
	£785,088	1	0		£785,088

The accounts of the above Bank furnish a good example of the method in which the half-yearly accounts of a great London Bank are published.

The student will note that the order in which the assets are marshalled is that described on p. 124 as the most suitable form for adoption by financial houses whose claim for public confidence is based, to a great extent, upon their ability to exhibit the possession of a safe and sufficient margin of liquid assets with which to meet all probable claims in case of urgent need. For this reason it is the practice of Banks to marshal their assets in the order of their realizability. The list is therefore headed with the already realized asset of "Cash in Hand, £3,353,635 6s. 10d." This sum represents the coin and notes in the hands of the paying cashiers at the Head Office and Branches as on December 31, 1908, as shown by the "Daily Balance" books, and also includes the Cash Reserves in the hands of the chief cashiers at the same establishments.

The item "Cash in Hand" generally includes also various "Cash Articles," such as cheques received too late for presentation at the Clearing House,* postal orders, etc. Very few English Banks other than the Bank of England now issue their own notes, and in cases where such notes are issued the Bank's "Own notes" in the hands of its cashier must be deducted from the "Notes issued Account," otherwise the accounts will show a larger cash balance than really exists. The London Banks, in common with the Bank of England, withdraw from circulation all Bank of England notes which reach their hands—the "life" of a £5 Bank note, for instance, averaging about one week only.

The item "Cash in Bank of England, £3,528,438 12s. 2d.," represents the amount standing to the credit of the Union Bank upon Current Account with the Bank of England as on December 31, 1908, and forms a further Cash Reserve in case of emergency.

All Banks which are members of the Bankers' Clearing House keep Current Accounts with the Bank of England, and utilize their balances there as funds wherewith to satisfy the balance, if any, payable by them to the other "Clearing" Banks each day.

* Country cheques must reach the Clearing House by 12.30 p.m.

The London Clearing House is the place where the leading Banks meet to exchange cheques held by them, and drawn on other "Clearing" Banks. The cheques drawn upon one Clearing Bank and presented at the Clearing House, are offset against those held by it upon other Clearing Banks, and the final balance resulting upon the transactions for the day is adjusted by an order drawn by the Clearing House clerk of each Bank upon the accounts of the Clearing Bankers with the Bank of England. If the necessary transfer is a credit, the order is green, and if a debit the order is blue. The Bank of England upon receipt of these orders makes the necessary transfers of the differences represented by the orders from or to the accounts of the various Banks concerned. Nearly all important Banks have seats at the London Clearing House, and to some extent the same principle is operating in provincial towns and abroad—the practice obviously greatly simplifying the detailed work of the Banking world. Every Bank keeps a record of its daily transactions with the Bank of England, consisting of withdrawals, payments to, and Clearing House transfers. These records are entered in the "Goldsmith's Book," or "Bank of England Book."

The item "Money at call and at short notice, £6,933,965 2s.," represents a liquid asset of another type which is more or less available in case of need. Loans are largely made by the London Banks to bill-brokers "at call," *i.e.* they are repayable at any moment or at short notice. Bundles of "first-class" Bills are deposited to cover these loans, a suitable margin over the amount of the loan being demanded in each case. The bills are so arranged that as far as possible they mature at or about the same date. Short loans are also made upon "Floaters" (Exchequer Bonds, Consol bearer certificates, or other sterling securities). Such loans are either "At call" or on "Short notice" * (usually seven days). A large business is also transacted by the London Banks in loans to stock-brokers. These loans usually run from "account to account," that is to say, from one Stock Exchange settling day to another. "Settling days" usually take place twice a month, or, in the case of Consols, once a month (usually on the third day of the month).

The stockbroker, upon requesting a loan from account to account, deposits by way of security a parcel of securities, accompanied by a list whereon the securities are enumerated and valued at the "make up price" of the day. A margin of 15 per cent. or thereabouts is required by the lending Bank to cover market fluctuations.

Similar advances are frequently made upon "Consignments," "Produce Documents," and "Dock Warrants," and in these cases the loan is usually limited to two-thirds of the invoice price of the goods shipped.

The item "Investments" is self-explanatory. The student will, however, note that the "Reserve Fund" is separately invested in good securities. Banks afford a good illustration of those cases where it is eminently desirable that the Reserves created out of profits should be immediately available *in cash* in case of need, and, in order that this end may be secured, the separate investment of the Fund in easily realizable outside securities is essential.

The item "Bills discounted, £4,428,761 8s. 10d.," represents the total of the unmatured Bills purchased by the Bank from its

* Loans liable to immediate call are styled "Call Money"; when made for one week, "Weekly Money," and when the advance is for half a day (afternoon to morning), "Overnight Money."

customers, and from bill brokers under discount, as explained in Chapter XII, page 183.

The item "Loans and Advances, £15,456,759 15s. 1d.," represents the total of the loans made by the Bank to its customers and others, ordinarily with security but occasionally without, for longer periods than the short loans scheduled above. The custom as to these loans varies as between different Banks, and as between London and Country Banks. The general country practice is to allow customers an "overdraft" upon Current Account—a note being made at the head of each account of the limit of such overdraft. London Bankers, on the other hand, prefer that the customer's Current Account shall be maintained in credit, and a separate Loan Account opened to record the transactions arising out of any loan that may be granted, the proceeds of such loan, as and when made, being credited to the customer's Current Account. An equitable charge, in favour of the Bank, is usually deposited with the securities lodged to cover the loan. Where Stocks and Shares are deposited as "cover" they must be actually transferred to the names of the nominees of the Bank. Loans made to customers under these methods are usually repayable at a certain *fixed* date.

The rate of interest charged upon loans in London is usually 1 per cent. above the current "Bank Rate," with, as a rule, a *minimum* rate of 4 per cent. per annum; some provincial banks however work upon a minimum charge of 5 per cent. per annum; but the rate to be charged naturally varies according to the adequacy of the security and the reputation of the borrower.

The student will note that the item "Liabilities of Customers on acceptances, etc., as per contra, £3,461,362 2s. 1d.," appears upon both sides of the Balance Sheet. The item represents bills which have been accepted or endorsed on behalf of customers, usually to meet liabilities due abroad in cases where a remittance of undoubted worth and negotiability is necessary. The customers who are accommodated in this manner are, of course, liable to the Bank for these acceptances, hence the appearance of the item twice—once as representing the liability of the Bank to the outside world, and again as showing the liability of the customers thus accommodated to the Bank. Accommodation of this description is not afforded to customers unless the sum involved is covered by securities, or by an ample credit balance on Current Account. A charge for commission is usually made for accommodation of this description.

On the Liabilities side of the Balance Sheet the item "Rebate on Bills not due, £29,077 5s. 11d.," requires some explanation. It is the practice of Bankers, when purchasing Bills from customers, to pass at once the amount of the discount charged upon the acceptances in daily totals to the credit of the "Discount Account" (through the "Bills Received for Discount Register") in the General Ledger. It will be obvious, therefore, that, at any given closing date, credit will have been taken for an amount of discount on bills which have not yet matured, and the discount upon which has not therefore all been earned in respect of the period covered by the accounts. In order, therefore, that the current Profit and Loss Account may not receive credit for a larger sum of discount than has actually been earned during the period, the amount of the unearned discount is calculated and carried forward to the next half-year. To effect this, the Discount Account in the General Ledger is debited with the "rebate," and a like sum is brought

down on the credit side of the account as a Liability in the same manner as was explained to be the case with the various "provisions" described on p. 100.

The item, "other Liabilities at £563,352 *ls. 11d.*," besides including unclaimed dividends and sums due to other banks, probably includes also such items as have been held in suspense pending their final allocation.

The remainder of the Liabilities set out in the Balance Sheet are self-explanatory.

In common with some other undertakings it is frequently the practice of Banks to create "Secret Reserves," that is to say, Reserves are made out of profits which are not disclosed in the published accounts. Perhaps, in the case of Banks, the most frequent methods in which Secret Reserves are created are—

- (a) The excessive depreciation of the Bank Premises owned. The valuable Freehold Premises owned by some Banks stand at much below their actual value in the published accounts.
- (b) The maintenance of Assets at cost in cases where they have greatly appreciated. In the present time of depreciated market value of securities, however, Secret Reserves arising from this cause have largely disappeared. Formerly Consols frequently appeared at valuations much below market value.
- (c) The omission of Assets altogether from the Balance Sheet. The Premises (Head Office and Branches) owned by the Bank of England, for example, do not appear at all on the Bank's Balance Sheet, though obviously of considerable value!

This is not a suitable place to discuss the ethics of the question of the creation of Secret Reserves. From a Banking standpoint, however, there is no doubt that the creditors and customers of a Bank have but little ground of complaint when the financial position of their debtor is in reality stronger than is disclosed by the accounts published.

In these days of banking amalgamations almost all the leading London Banks possess many suburban and provincial Branches.

A complete set of books is kept at each Branch. At frequent intervals, returns of the progress and financial position of the Branch are forwarded by the manager to the Head Office.

"Travelling Inspectors" are employed in constantly visiting the Branches. The principal duty of these officials is to audit and check the accounts and books of the various Branches. The verification of the cash and securities in hand, and the criticism of the outstanding advances made by the Branch to its customers, also form important features of the investigations of these officers. At the conclusion of each visit an "Inspection Report" is forwarded to the Head Office.

The trading results of the various Branches, together with their assets and liabilities, are incorporated, at the close of each half-year, in the Head Office Profit and Loss Account and Balance Sheet.

LONDON AND NORTH.

[No. 4.]

RECEIPTS AND EXPENDITURE

Dr.

To EXPENDITURE.	Amount expended to December 31, 1912.			Amount expended during Year, as per No. 5.			Total.		
	£	s.	d.	£	s.	d.	£	s.	d.
Lines open for Traffic	85,220,945	9	3	126,909	5	2	85,347,854	14	5
Lines not open for Traffic—									
New Lines	88,283	18	5	37,014	16	3	125,298	14	8
Widenings of and additions to existing Lines	94,935	3	2	123,913	11	7	218,848	14	9
Lines leased	6,084	6	7	Cr. 14	16	1	6,042	10	6
Lines jointly owned	5,750,627	9	9	17,812	18	9	5,768,440	8	6
Ditto, as enumerated in Abstract J.—									
Manchester South Junction and Altrincham	621,448	18	2				621,448	18	2
Portpatrick and Wigtownshire	93,271	5	1	50	0	0	93,321	5	1
Lines jointly leased	23,682	14	7				23,682	14	7
Ditto, as enumerated in Abstract J.—									
Oldham Ashton and Guide Bridge Junction	173,300	0	0				173,300	0	0
Rolling Stock	12,072,315	3	1	153,045	8	6	12,825,360	11	7
Manufacturing and Repairing Works and Plant—									
Land and Buildings	1,701,101	2	10	41,095	4	0	1,742,196	6	10
Plant and Machinery	1,631,508	8	3				1,681,508	8	3
Total Capital expended upon Railway	108,077,498	19	2	499,790	8	2	108,577,298	7	4
Steamboats	1,065,864	8	10				1,065,864	8	10
Steamboat Repairing Works and Plant ..	126,241	13	4				126,241	13	4
Canals	896,886	12	6	Cr. 545	0	0	896,841	12	6
Docks, Harbours, and Wharves	1,487,424	5	8	4,609	10	11	1,492,033	16	7
Hotels	439,014	18	3	1,881	5	6	440,396	3	9
Electric Power Stations, etc.	258,473	18	4	32,059	12	9	290,533	11	1
Land, Property, etc., not forming part of the Railway or Stations—									
Used in connection with Railway working	417,755	2	2	11,829	0	0	429,584	2	2
Not used in connection with Railway working	4,558,397	4	7	43,476	14	2	4,601,873	18	9
Subscriptions to other Companies (for details see Table No. 4 (a))	2,495,760	19	1				2,495,760	19	1
Advances to Dublin and South Eastern Railway Company	100,000	0	0				100,000	0	0
Advances to London Electric Railway Company	2,500	0	0	246,700	0	0	249,200	0	0
TOTAL EXPENDITURE	£ 120,925,818	1	11	839,310	11	6	121,765,128	13	5

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WESTERN RAILWAY.

ON CAPITAL ACCOUNT.

Cr.

BY RECEIPTS.	Amount received to December 31, 1912.			Amount received during Year.			Total.	
	£	s.	d.	£	s.	d.	£	s. d.
Shares and Stocks (No. 2)	76,470,200	10	0				76,470,200	10 0
Lebenture Stock (No. 3)	29,737,351	0	0	20	0	0	29,737,401	0 0
Premiums on Shares and Stocks	9,592,454	1	5					
Premiums on Debenture Stock	1,008,125	13	9					
Total Premiums	10,600,579	17	2					
Discounts on Shares and Stocks	582,157	18	5					
Discounts on Debenture Stock	8,106	1	6					
Total Discounts	£590,263	19	11					
Balance of Premiums and Discounts	10,010,315	17	3				10,010,315	17 3
TOTAL RECEIPTS	£ 116,217,897	7	3	20	0	0	116,217,917	7 3
By BALANCE							5,547,211	6 2
TOTAL	£ 121,765,108	13	5					

No. 8.—REVENUE RECEIPTS AND EXPENDITURE OF THE WHOLE UNDERTAKING.

See State- ment		GROSS RECEIPTS		EXPENDITURE		NET RECEIPTS.	
		£	s. d.	£	s. d.	£	s. d.
10	Railway.....	16,826,620	18 11	10,543,744	19 11	5,782,875	19 0
11	Omnibuses and other Passenger Vehicles not running on the Rail- way	27,424	12 7	29,332	18 10	Dr. 1,908	6 3
12	Steamboats	216,796	15 7	241,418	12 4	Dr. 24,621	16 9
13	Canals	24,877	6 3	13,638	5 3	11,239	1 0
14	Docks, Harbours, and Wharves ...	155,500	6 7	122,128	11 8	33,376	13 11
15	Hotels, and Refreshment Rooms and Cars where Catering is carried on by the Company	467,840	4 5	371,905	18 3	95,934	6 2
	TOTAL	£17,219,060	3 4	£11,322,164	6 3	£5,896,895	17 1
	Miscellaneous Receipts (<i>Net</i>):—			£	s. d.		
	Rents from Houses and Land.....			151,904	3 0		
	Rents from Hotels			1,293	17 8		
	Other Rents, including Lump-sum Tolls			118,715	15 9		
	Interest and Dividends from Investments in other Companies:—						
	Callander and Oban Railway ..			2,287	10 0		
	Cockermouth Keswick and Penrith Railway...			725	0 0		
	Dublin and South Eastern Railway (New Ross and Waterford Extension)			3,480	0 0		
	Great Southern and Western Railway			5,251	2 5		
	Harborne Railway			400	0 0		
	North London Railway			63,114	10 0		
	Shropshire Union Railways and Canal			11,762	8 2		
	Interest on Advance to London Electric Railway			2,816	17 4		
	Transfer Fees			1,929	15 10		
	Joint Lines (Abstract J): Company's proportion of Receipts other than those in respect of Rail- way Working			7,108	2 3		
	General Interest			36,434	18 7		
	Great Western Railway: Moiety of Shrewsbury and Welshpool and Vale of Towy Dividends ..			7,500	0 0		
	Furness Railway: Moiety of Whitelaven Cleator and Egremont Dividend			22,975	0 0	437,699	1 0
	TOTAL NET INCOME					£6,334,594	18 1

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[No. 9.] PROPOSED APPROPRIATION OF NET INCOME

	£	s.	d.
Balance brought forward from last year's Account	101,393	5	8
Net Income (as per Statement No. 8)	6,334,594	18	1
	£ 6,435,988	3	9
<i>Deduct</i> —Interest, Rentals, and other Fixed Charges :—	£	s.	d.
Interest on Superannuation and other Funds	130,856	3	7
Rent Charges and Annuities	8,349	11	0
Chief Rents, Wayleaves, etc., including Lump-sum Tolls ...	70,304	10	11
Interest on Debenture Stock	1,170,069	17	1
Rent of and Guaranteed Interest on Leased and Worked Lines :—			
Charnwood Forest	5,28	19	5
Harborne	4,520	2	1
Mold and Denbigh	7,322	17	8
North and South Western Junction	3,167	6	8
Minor Lines	763	6	7
Joint Lines (Abstract J): Company's proportion	7,144	13	8
Birkenhead Railway Dividend (<i>Moiety</i>)	49,499	2	5
Shrewsbury and Hereford Railway Dividend (<i>Moiety</i>)	19,875	0	0
Tenbury Railway Dividend (<i>Moiety</i>)	673	0	0
West London Railway Dividend (<i>Proportion</i>)	2,007	14	8
Shropshire Union Railways and Canal	3,081	8	0
Birmingham Canal	29,024	14	2
	£ 1,512,792	7	11
BALANCE AFTER PAYMENT OF FIXED CHARGES	4,923,195	15	10
Appropriation to Reserve	100,000	0	0
	£ 4,823,195	15	10
Dividends on Guaranteed and Preference Stocks :—	£	s.	d.
Consolidated 4 per cent. Guaranteed Stock	604,016	4	10
Consolidated 4 per cent. Preference Stock	923,224	16	0
4 per cent. Preference Stock (1902)	191,720	8	10
	£ 1,718,961	4	8
BALANCE AVAILABLE FOR DIVIDEND ON CONSOLIDATED STOCK	£ 3,104,234	6	2
	£	s.	d.
Dividend on Consolidated Stock @ 7 per cent. per annum..	3,062,306	13	0
Balance carried forward to next year's Account	101,927	13	2
	£ 3,104,234	6	2

[No. 10]

RECEIPTS AND EXPENDITURE IN

Dr.

TO EXPENDITURE.				Percent- age of Traffic Receipts.
See Abstracts.	£	s.	d.	
A—Maintenance and Renewal of Way and Works.....	1,551,785	15	6	9.65
B—Maintenance and Renewal of Rolling Stock :—				
(1) Locomotives	£727,845	13	11	4.53
(2) Carriages	563,732	18	11	3.51
(3) Wagons	396,174	9	0	2.46
C—Locomotive Running Expenses.....	£2,320,922	9	3	10.50
D—Traffic Expenses.....	3,461,178	11	7	14.43
E—General Charges	5,782,101	0	10	21.53
Law Charges	410,876	7	2	35.96
Parliamentary Expenses	25,454	19	2	2.56
Compensation (Accidents and Losses) :—	5,393	3	2	.16
Passengers.....	£10,628	17	2	.03
Workmen	56,823	13	9	
Damage and Loss of Goods, Property, &c.	190,123	3	3	
Rates	263,578	14	2	1.64
Taxes	637,244	0	9	3.96
Tithe Rent Charges	48	18	4	
Government Duty	2,168	8	7	.01
National Insurance :—	39,233	1	5	.24
Health.....	£48,833	13	6	
Unemployment.....	7,682	5	5	
G—Running Powers (Balance).....	55,915	18	1	.85
	Cr. 49,276	16	0	Cr. .30
TOTAL TRAFFIC EXPENDITURE.....	10,412,216	13	5	64.76
H—Mileage, Demurrage, and Wagon Hire (Balance)	50,118	12	1	
J—Joint Lines	61,703	4	11	
Miscellaneous	19,706	9	6	
TOTAL EXPENDITURE	£ 10,543,744	19	11	
NET RECEIPTS	£ 5,782,875	19	0	
TOTAL	£ 16,326,620	18	11	

RESPECT OF RAILWAY WORKING

						Cr.
By GROSS RECEIPTS.						Percent- age of Traffic Receipts.
<i>See Abstracts.</i>	£	s.	d.	£	s.	d.
PASSENGER TRAIN TRAFFIC:—						
Ordinary Passengers:—						
First Class.....	604,886	16	8			
Second Class.....	3,950	14	2			
Third Class.....	4,442,114	7	1	5,050,951	17	11
Season Tickets:—						
First Class.....	200,932	17	10			
Second Class.....	2,702	17	10			
Third Class.....	250,981	0	6			
Workmen's Tickets.....				454,566	16	2
				145,928	19	8
Total Receipts from Passengers.....				5,651,447	13	9
Mails.....				279,619	4	1
Parcels up to 2 cwt., Parcels Post, and Excess Luggage.....	954,914	8	5			
Other Merchandise by Passenger Trains.....	448,249	7	6			
	1,403,163	15	11			
F—Less Expenses of Collection and Delivery.....	120,532	6	9			
				1,282,631	0	2
Total Passenger Train Receipts.....				7,213,998	7	0
GOODS TRAIN TRAFFIC:—						44·87
Merchandise.....	5,823,303	5	1			
F—Less Expenses of Collection and Delivery.....	786,165	11	3			
	5,037,137	13	10			
Live Stock.....	220,323	3	3			
Coal, Coke, and Patent Fuel.....	2,365,264	0	4			
Other Minerals.....	1,282,652	16	6			
Total Goods Train Receipts.....				8,864,577	13	11
TOTAL TRAFFIC RECEIPTS.....				16,078,576	0	11
J—Joint Lines.....				103,450	5	10
Miscellaneous.....				144,594	12	2
TOTAL.....	£			16,326,620	18	11

Dr.						
		£	s.	d.		
To Unpaid Interest and Dividends.....		13,508	6	0		
Interest and Dividends payable or accruing and provided for		652,420	6	2		
Amount due to Railway Companies and Committees		407,159	5	5		
Savings Bank.....		880,788	13	1		
Superannuation and other Provident Funds.....		3,450,343	8	4		
Accounts payable.....		945,888	7	1		
Liabilities accrued.....		60,514	17	4		
Miscellaneous Accounts.....		191,955	5	7		
Clerks' Gaurantee Fund.....		4,656	2	2		
Forged Transfer Act Fund.....		10,919	15	1		
Compensation Fund.....		50,000	0	0		
Fire Insurance Fund		493,545	18	0		
Depreciation Funds—						
Railway.....		885,589	3	10		
Steamboats (including Insurance Fund)		697,627	17	7		
Other Boats.....		77,105	19	10		
General Reserve Fund.....		700,000	0	0		
		£	s.	d.		
Balance available for Dividends and Reserve as per						
Account No. 9—						
	£	s.	d.			
Dividends.....	4,823,195	15	10			
Reserve.....	100,000	0	0			
				4,923,195	15 10	
Less Interim Dividends paid, as per Account No. 9 (a)				2,146,183	11 10	
					2,777,012	4 0
				£	12,304,025	7 6

The accounts of the London & North Western Railway Company for the year ended December 31, 1913,¹ afford a good example of the form in which the Accounts of British Railways are presented to the shareholders. The student is aware that the accounts of undertakings which, by reason of their uses and object, are deemed to be of a *permanent* nature, are kept upon the "double-account" system. The accompanying statements afford a good illustration of a set of accounts kept upon this system.

The accounts here reproduced are those which form the complete statements of the Company's transactions (a) as to Receipts and Expenditure upon Capital Account (b) as to Earnings and Expenditure on Revenue Account, and (c) as to the Financial Position disclosed by the General Balance Sheet.

Under the provisions of the *Railway Companies (Accounts and Returns) Act, 1911*, an Act which came into force on January 1, 1913, certain other statements, abstracts, and accounts which amplify the figures appearing in the accounts set out above are also published as follows—

(A) No. 4 Statement, *Receipts and Expenditure on Capital Account*.

The Receipts on Capital Account are further elaborated as follows—

No. 1. (a) Nominal Capital authorized and created by the Company.

¹ Under the *Railway Companies (Accounts and Returns) Act, 1911*, the accounts of Railways are now presented yearly, instead of half-yearly as formerly.

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BALANCE SHEET.

	Cr.
By Capital Account: Balance at Debit thereof as per Account No. 4	£ 5,547,211 s. d. 6 2
Cash at Bankers and in hand..... £ 293,254 3 5	
Cash on Deposit at Interest..... 1,611,600 0 0	
	1,904,254 3 5
Investments in Stocks and Shares held by the Company and advances to other Companies not charged as Capital Expenditure.....	211,481 18 11
Stocks of Stores and Materials	2,095,002 9 5
Outstanding Traffic Accounts.....	1,242,613 0 8
Amount due by Railway Companies and Committees.....	394,563 16 11
Amount due by Railway Clearing Houses.....	209,898 9 9
Amount due by Postmaster-General.....	73,981 13 10
Accounts Receivable	323,514 2 6
Miscellaneous Accounts. ...	257,506 12 7
Dividends to be received on Shares held by the Company.....	43,757 13 4
	£ 12,304,025 7 6

(b) Nominal Capital authorized and created by the Company jointly with some other Company.

(c) Nominal Capital authorized and created by some other Company on which the Company either jointly or separately guarantees a fixed Dividend.

No. 2. Share Capital and Stock created, as per Statement No. 1 (a) showing the proportion issued.

No. 3. Capital raised by Loan and Debenture Stock.

[*Note*.—The totals of Nos. 2 and 3 from the first two items on the credit side of No. 4 Statement reproduced here.]

The Expenditure on Capital Account is further elaborated in—

No. 4 (a) Subscriptions to other Companies (this statement gives the detail of the third item from the bottom on the debit side of No. 4 Statement).

No. 5. Details of Capital Expenditure during the year. This information is set out with considerable detail in accordance with the requirements of the Act and agrees, in total, with the middle column of No. 4 Statement as reproduced here.

(B) The *Earnings and Expenditure on Revenue Account* are elaborated in—

No. 10 Statement. Receipts and Expenditure in respect of Railway Working.

No. 8 Statement. Revenue Receipts and Expenditure of the Whole Undertaking.

No. 9 Statement. Proposed Appropriation of Net Income.

These statements are reproduced on pp. 524–527, and it will be noticed that they follow in sequence from one to the other in the order stated.

An additional statement, No. 9 (*a*), "Statement of Interim Dividends Paid" is required by the Act, the total of which appears as a separate item in the General Balance Sheet.

The figures which appear, in totals, in No. 10 Statement are elaborated by means of "Abstracts," to which, it will be noted, reference is made in the margin of the statement. There are eleven of these abstracts as follows:—(*a*) Maintenance and Renewal of Way and Works; (*b*) Maintenance and Renewal of Rolling Stock: (1) Locomotives; (2) Carriages; (3) Wagons; (*c*) Locomotive Running Expenses; (*d*) Traffic Expenses; (*e*) General Charges; (*f*) Expenses of Collection and Delivery of Goods; (*g*) Running Powers—Receipts and Payments in Respect of Running Power Expenses; (*h*) Mileage—Demurrage and Wagon Hire; (*j*) Jointly owned and Jointly Leased Lines—Receipts and Expenditure.

No. 8 Statement (*g.v.*) in addition to the net result of the Railway Working, as detailed in No. 10 Statement, contains the working results of the various additional undertakings usually owned by railways, such as Steamboats, Docks, Hotels, etc. Each different undertaking is supported by a separate Statement, showing the detail of the year's working (Nos. 11 to 15). There is also a further Statement, No. 16, "Receipts and Expenditure in respect of other separate businesses carried on by the Company," in case the Statements provided do not cover all the undertakings of the Company; and a Statement, No. 17, "Electric Power and Light Account," which is more in the nature of a statistical return, showing the Cost of Electric Current manufactured by the Company for Power and Lighting Purposes.

(*C*) *The Financial Position* of the Company is disclosed in No. 18 Statement, "The General Balance Sheet." The student will note that in the case illustrated the transactions on Capital Account have resulted in an excess of Capital Expenditure over Capital Receipts of £5,547,211 6s. 2d., as shown in No. 4 Statement. In accordance with the principles of the double-account system, this excess appears as a debit balance in the General Balance Sheet. As all "Fixed Assets" of the Railway have been dealt with in No. 4 Statement, there only remain the "Floating Assets," such as Cash, Stores, Book Debts, and so on, for inclusion in the General Balance Sheet. Under the double-account system, assets of this nature are not chargeable against the capital receipts, as they are of a fluctuating nature (see pp. 410 and 411 *ante*). Among the credit balances on the liabilities side of the General Balance Sheet appear the outstanding debts due to creditors of various classes, the various Insurance, Provident and Compensation Funds, the Balance of Revenue available for Dividends, and the General Reserve and Depreciation Funds. The last-mentioned item requires a word of explanation and should be carefully considered by the student in connection with the double-account system. It has been previously explained (p. 410 *et seq.*) that, under this system, when a fixed asset has been acquired and charged to Capital,

Account it remains as a debit in that account at its original cost. It must not, however, be assumed that it is neither possible nor necessary to provide for the wear and tear which may be inherent in any particular type of asset in accounts prepared on the double-account system. Taking, for example, the accounts of a Railway Company, the renewal of fixed assets of a wasting nature is provided for by debiting the Revenue Account and crediting an appropriate Depreciation Fund or Reserve Account with an amount adequate to meet any waste which may have occurred. The provisions for wastage so made are left to accumulate from year to year. In this way future liabilities in respect of relaying the permanent way, rebuilding bridges, replacing rolling stock, or similar needs are duly provided for, and the cost of such replacements is equalized as between one year and another. In the case of assets which it is not proposed to replace or retain; upon the termination of the useful life of the asset, the original cost is credited to Capital Expenditure Account, and debited to the depreciation fund accumulated for that purpose, and, in this manner, the asset is entirely written out of Capital Expenditure.

For example, assume that a Railway Company had purchased a motor *char-à-banc* at a cost of £1,000. The Company did not propose to replace this motor when worn out five years hence. The procedure would be as follows: Upon the purchase of the motor the Capital Expenditure Account would be debited with the original cost, £1,000. Every year one-fifth of this cost, £200, would be debited against revenue through No. 8 Statement ("Revenue Receipts and Expenditure of the Whole Undertaking") and credited to a special depreciation account raised for that purpose. At the end of the five years, when an amount equal to the original cost of the motor had been accumulated, the special depreciation fund would be closed by transfer to the Capital Expenditure Account. The fact that the original cost of the *char-à-banc* had been eliminated from the Capital Expenditure Account would be indicated by means of a credit entry, printed in italics, in No. 4 Statement ("Receipts and Expenditure on Capital Account"). An example of an item written out of Capital in this manner is shown in italics on p. 524, i.e. *Canals Cr. £545* representing, probably, a sale of surplus land.

The principle of providing for wastage in the case of Railway Companies in the manner described above is illustrated by reference to the General Balance Sheet of the London and North Western Railway Company (p. 526), where it will be seen that a provision for future renewals of over £1,600,000 has been accumulated in addition to a General Reserve Fund of £700,000 for contingencies. The student must understand that the ordinary current renewals, for which no depreciation fund has been accumulated, are charged against revenue year by year as and when they are incurred. The depreciation and reserve funds, explained above, are, in addition to the ordinary repairs and replacements charged against revenue, and are provided in recognition of the fact that wastage occurs in connection with assets which do not need immediate renewal.

The Railway Companies (Accounts and Returns) Act, 1911, further provides for elaborate statistical returns in Part II of the printed accounts. These returns are not of a financial nature, and do not form part of the double-account system.

Dr.

CAPITAL AND LIABILITIES.		£	s.	d.
Capital—				
(a) 1,000,000 Cumulative 5 per cent. Preference Shares of £1 each	£1,000,000 0 0			
(b) 1,000,000 Ordinary Shares of £1 each, per Balance Sheet at March 14, 1908.....	£1,000,000 0 0			
Add 250,000 Ordinary Shares of £1 each, issued in July 1908...	250,000 0 0			
	1,250,000 0 0			
Less Calls in arrear on 79 Shares of new Issue.....	65 15 0			
	1,249,934 5 0	2,249,934	5	0
Debenture Stock, bearing 4 per cent. Interest	500,000	0	0	0
Bills Payable.....	212,982	0	5	
Overdraft from Bank	398,745	4	4	
Sundry Creditors and Directors' Fees	241,960	9	4	
Savings Bank Deposits and Interest accrued thereon	67,321	8	7	
Unclaimed Dividends.....	2,049	19	8	
Interest on Debenture Stock accrued at date.....	8,965	0	11	
Premium on Shares Account—				
5s. per Share on 666,667 Shares of original Issue.....	£166,666 15 0			
5s. per Share on 250,000 Shares of new Issue.....	£62,500 0 0			
Less Expenses of new Issue.....	8,277 17 9			
	54,222 2 3	220,888	17	3
Reserve Account.....	145,000 0 0	365,888	17	3
Profit and Loss Account—				
Balance brought from previous year	£20,264 16 3			
Profit for period ending March 20, 1909, as per Account	162,726 5 2	182,991	1	5
Deduct—(a) Interest on Debenture Stock for year.....	£20,000 0 0			
(b) Interim Dividend on Preference Shares paid Sept. 30, 1908	25,000 0 0			
(c) Interim Dividend on original Ordinary Shares paid Nov. 9, 1908.....	30,000 0 0			
(d) Interim Dividend on new Ordinary Shares paid Nov. 9, 1908.....	1,171 17 6	76,171	17	6
		106,819	3	11
		£4,149,666	9	5

Dr.

PROFIT AND LOSS ACCOUNT, for the Period from

	£	s.	d.
To Expenses of Management, including Salaries, General Charges, Head Office Expenses, Auditors' Fees, Transfer Office Expenses, Savings Bank Expenses and Advertising.....	147,715	16	4
Bad Debts.....	2,164	4	7
Interest on Savings Bank Deposits	413	15	11
Depreciation on Plant, Fittings, Fixtures, Utensils, etc., at Stores, Head Office, and Branches, and in Ceylon; also Provision for Depreciation of Leaseholds.....	38,963	3	10
Directors' Fees.....	6,200	0	0
Fees to Trustees for Debenture Holders	630	0	0
Balance carried to Balance Sheet, being Profit for the above period	162,726	5	2
	£358,813	5	10

LIMITED

as at March 20, 1909

531

Cr.

ASSETS.		£	s.	d.
Goodwill of the Business, Freehold and Leasehold Properties, and Freehold Estates in Ceylon.				
Amount per Balance Sheet at March 14, 1908, at Cost, less amounts written off for Depreciation.....	£1,834,295 6 0			
Additional Capital Expenditure during year.....	12,111 3 5			
		1,846,406 9 5		
Less written off for Depreciation and Lease Redemption during year.....	4,354 12 11			
		1,842,051	16	6
Plant, Machinery, Fixtures, Fittings, Utensils, Carts, Horses, etc.—				
Amount per Balance Sheet at March 14, 1908.....	£309,647 5 0			
Additions during year at Branches.....	170,166 13 3			
Additions during year at Stores, Factories, etc.....	61,524 14 11			
		541,338 13 2		
Less written off for Depreciation during year.....	34,608 10 11			
		506,730	2	3
Stocks-in-Trade.....		1,280,628	6	0
Sundry Debtors.....		256,147	14	0
Prepaid expenses and other items paid in advance, including amount of advance outlay carried forward.....		80,155	14	8
Investments at Cost and Interest, etc., accrued thereon (Market Value, £101,537 8s. 10d.).....		104,277	10	9
Cash at Bank and on hand.....		69,675	4	5
		£1,140,666	9	5

15th March, 1908, to 20th March, 1909, inclusive

Cr.

	£	s.	d.
By Profit on Trading at Stores and Branches (after deducting Wages and Working Expenses) and Profits from Estates in Ceylon.....	333,315	9	8
„ Transfer Fees.....	883	11	2
„ Interest, etc., on Investments.....	4,614	5	0
	£338,813	5	10

The Statements reproduced on pages 530 and 531 are the annual accounts for the year ended March 25, 1909, of Lipton, Ltd., the well-known firm of multiple shop proprietors.

The student will notice that, whereas the Balance Sheet contains full details, the Profit and Loss Account is published in a condensed form and does not afford trade rivals much information that can be made use of. The gross profit (£353,315 9s. 8d.) brought from the Trading Account is arrived at prior to charging the expenses of management (£147,715 16s. 4d.) as set out on the debit side of the account. The "Interest on Savings Bank Deposits" is an unusual item, and is due to the fact, as displayed in the Balance Sheet, that deposits, on Savings Bank terms, are received by the firm. The account is closed by the item "Balance carried to Balance Sheet, being profit for the above period, £162,726 5s. 2d." In the author's opinion this is not a happy entry. The Profit and Loss Account is a Ledger Account into which the items appearing therein have been closed. The Balance Sheet is a schedule of the remaining Ledger balances, and no account under this name exists in the Ledger, and therefore no balance can be carried to it. In preparing accounts for examination purposes, the student will be wise to carry down the balance shown by the Profit and Loss Account, and show it as it really is, viz. an open balance to be subsequently dealt with.

Turning to the Balance Sheet it would have been better if the "Sundry Creditors" and "Bills Payable" had been entered "short," and extended in one total showing the amount owing to the outside Trade Creditors. The item "Insurances unexpired and other items paid in advance, £80,155 14s. 8d.," includes "advertising outlay, £30,000." This amount represents a portion of the advertising expenses incurred during the period the advantages expected to be derived from which are estimated to extend over future years. The item is of quite a usual nature in the accounts of companies whose expenditure upon advertising reaches large proportions and is, of course, quite legitimate in principle.

The item of greatest magnitude on the Assets side of the Balance Sheet is that of £1,842,051 16s. 6d., representing the book value of (1) the Goodwill of the Business; (2) the Freehold and Leasehold Property; and (3) the Freehold Estates in Ceylon. The total here inserted might with advantage have been subdivided between these three dissimilar types of asset, especially in order that the proportion of the purchase price which was paid for the intangible asset "Goodwill" might appear. In all probability the cost to the Company of the Goodwill of the vast undertaking acquired by it forms a large proportion of the total given above. The amount of £4,354 12s. 11d. written off the total of the fixed assets, amounting to £1,846,406 9s. 5d., can hardly be described as excessive, although it is doubtless adequate in the special circumstances of the case.

The Investments, appearing in the Balance Sheet at £104,277 10s. 9d., are stated in a marginal note as being of the market value of £101,537 8s. 10d. This method of stating investments affords complete information to the shareholder, and is to be commended.

J. & F. Pears, Ltd.

STATEMENTS OF ACCOUNT

FOR THE YEAR ENDED

JUNE 30th, 1908.

A. & F. PEARS
BALANCE SHEET

Dr.		£	s.	d.
To Share Capital Authorized and Subscribed—				
20,000 Six per cent. Cumulative Preference Shares of £10 each, fully paid.....		200,000	0	0
320,000 Ordinary Shares of £1 each, fully paid.....		320,000	0	0
		520,000	0	0
,, Debenture Stock (5 per cent.).....		200,000	0	0
		720,000	0	0
,, Sundry Trade Creditors.....		24,381	18	6
,, Interest on Debenture Stock, half-year to date.....		5,000	0	0
,, Special Reserve Fund.....		5,702	11	11
,, Reserve Fund.....		58,500	0	0
,, Depreciation and Leasehold Redemption Fund—				
As at June 30, 1907.....		90,767	2	6
Less Amount written off.....		97	14	4
		90,669	8	2
Further provision during the year.....		3,642	4	8
		94,311	12	10
,, Unclaimed Dividends.....		375	8	1
,, Profit and Loss Account—				
Balance at Credit, as below.....		57,420	14	8
Profit undivided 1906-1907.....		6,414	19	0
		63,835	13	8
Deduct—				
Interest on Debenture Stock..... £10,000 0 0				
Interim Dividend on Preference Shares 6,000 0 0				
Ditto Ordinary Shares 12,800 0 0				
		28,800	0	0
		35,035	13	8
		£643,257	4	7

PROFIT AND LOSS ACCOUNT

Dr.		£	s.	d.
1908.				
June 30	To Salaries, Rent, Rates, Taxes, Fire Insurance, Foreign Agencies, Repairs and Renewals, and General Expenses, Advertising, Directors' and Auditors' Fees, and Fees to Trustees for Debenture Holders.....	102,157	15	5
„ 30	„ Depreciation and Leasehold Redemption Fund.....	3,642	4	8
„ 30	„ Balance carried to Balance Sheet.....	57,420	14	8
		163,220	14	4

• The student will note that the Profit and Loss Account of the well-known soap manufacturers (A. & F. Pears, Ltd.) is presented on much the same lines as the preceding accounts (Lipton, Ltd.), the inadvisability of supplying too many details to trade rivals doubtless influencing the form of these accounts in like manner. The Balance Sheet is also presented in similar fashion, and contains considerable detail.

As has been indicated previously there appears to be no legal obligation to depreciate "Goodwill" (*Wilmer v. McNamara*), but the student will note that, in the accounts under review, an amount of £90,000 has been written off this item. During the period covered by the accounts, Deferred Ordinary shares amounting to £150,000 were converted into 60,000 Ordinary shares of £1 each

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LIMITED

made up to June 30, 1908

		Cr.		
		£	s.	d.
By Goodwill of the Business in this Country, United States of America, Australia, and elsewhere, Freehold Land and Buildings, Leasehold Premises, Plant, Furniture, Fittings, and Works of Art, as at June 30, 1907.....	£662,386 15 5			
Less Goodwill written down as explained in the Directors' Report.....	90,000 0 0			
	512,386 15 5			
Expended during the year.....	1 721 9 10	514,658	5	8
„ Trade and other Debtors.....	42,191 10 7			
„ Bills Receivable.....	12 605 2 1	54,796	12	6
„ Stock-in-Trade, including Advertising Stock, Horses, Vans, etc., as per Inventories.....		185,731	4	7
„ Cash at Bankers on Deposit and Current Account, and in hand.....		55,280	9	8
„ Investments (at cost).....		132,790	12	5
viz.—£70,000 2½ per cent. Consols. £30,000 2½ per cent. Metropolitan Consolidated Stock. £27,790 The Company's 5 per cent. Debenture Stock. (There is at present a Depreciation in the Market Value of these Securities amounting on balance to £15,163.)				
		£943,257	4	7

for the year ended 30th June, 1908

		Cr.		
		£	s.	d.
1908.				
June 30	By Balance of Trading Account after making provision for Bad and Doubtful Debts.....	158,185	4	2
„ 30	„ Interest on Investments, and on Cash on Deposit.....	5,085	10	2
		£163,270	14	4

and the £90,000 liability thus released was wisely used to reduce the item, Goodwill.

“Investments at cost, £132,790 12s. 5d.,” are qualified by the note that depreciation (at present market values) exists to the extent of £15,163. It has been previously stated (Chapter X) that, in cases of this sort, it is usual to ignore market fluctuations unless the depreciation is believed to be permanent, and in any case this Company possesses ample reserves with which to meet the depreciation.

The student will note that, as is frequently the case, the interest and dividends payable out of profits are deducted from the balance of the Profit and Loss as shown in the Balance Sheet, instead of in the Profit and Loss Account itself.

HARLOW AND SAWBRIDGEWORTH GAS COMPANY

YEAR ENDED 31st DECEMBER, 1909.

No. 1. STATEMENT OF CAPITAL STOCK on the 31st December, 1909.

Act of Parliament relating to the Capital	Dividend authorised with Gas at an initial price of 2s. 11d.	Paid up.	Added by Conversion.	Total.	Reserving to be issued	Total amount authorised.
Harlow and Sawbridgeworth Gas Act, 1904	5 per cent.	£10,500	£10,500	£21,000	£12,500	£33,000

No. 2. STATEMENT OF LOAN CAPITAL on the 31st December, 1909.

Act of Parliament relating to the Loan Capital	Description of Loan	Rate per cent of interest.	Total Amount Borrowed	Remaining to be Borrowed	Total amount authorised.
Harlow & Sawbridgeworth Gas Act, 1904	Perpetual Debenture Stock.	3½	£11,895 <i>Less discount on Sale £1915</i>	£5,605	£7,500

No. 3. CAPITAL ACCOUNT.

	Expended during the Year	Total		Received to 31st Dec. 1908.	Received since that date	Total 'to 31st Dec. 1909.
	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To Expenditure to 31st Dec., 1908 .. .. .	.. .. .	13,324 10 0	By Original Ordinary Stock	21,000 0 0	.. .. .	21,000 0 0
<i>Since that date—</i>			" Perpetual Debenture Stock	1,925 0 0	.. .. .	1,925 0 0
" New and Additional Stores	27 5 8		" Less Discount on Debenture Stock	22,925 0 0	.. .. .	22,925 0 0
" New and Additional Meters	35 2 6			30 0 0	.. .. .	30 0 0
" New and Additional Mains and Services	28 0 9	85 8 11		22,895 0 0	.. .. .	22,895 0 0
" Total Expenditure to 31st Dec. 1909 .. .. .	.. .. .	13,409 18 11	.. Balance .. .. .	.. .. .	.. .. .	1,014 18 11
" Nominal Amount added by Conversion .. .. .	.. .. .	10,500 0 0				42,809 18 11
		£23,909 18 11				

No. 4. REVENUE ACCOUNT.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
TO MANUFACTURE OF GAS—			BY SALE OF GAS—		
Costs, including Carriage and all expenses	1603 11 2		Private Lighting	2362 7 4	
Purifying and Materials	23 18 9		" " by S.M. Meters	637 19 1	
Wages and Carbonizing	253 15 6		Public Lighting	188 4 6	
Salaries of Engineers, etc.	7 8 9			3188 10 11	
Repairs and Renewals of Plant	320 4 2	2598 18 4	BY RENTAL OF METERS .. .. .	.. .. .	81 8 2
TO DISTRIBUTION OF GAS—			BY RENTAL OF STOVES .. .. .	.. .. .	84 15 7
Wages	36 0 0		BY RESIDUAL PRODUCTS—		
Repairs and Maintenance of Mains and Service Pipes	132 6 4		Coke	681 10 10	
Repairs and Renewal of Meters	27 18 0		Breeze	24 7 4	
Ditto ditto Stoves	49 1 7	275 5 11	Tar	122 2 3	
TO PUBLIC LAMPS—			Sulphate of Ammonia	66 1 0	894 1 5
Lighting and Repairing	104 15 2		BY PUBLIC LAMPS—		
TO RENT, RATES AND TAXES	134 16 5		Lighting, Cleaning, Maintenance, etc.	106 2 6	
TO MANAGEMENT—			BY TRANSFER FEES .. .. .	.. .. .	15 0
Directors' Fees	130 0 0				
Auditors' Fees	8 8 0				
Secretary's Salary	135 0 0				
Stationery, Printing, etc.	35 18 1				
General Charges	6 13 0	315 13 1			
TO BAD DEBTS .. .. .	.. .. .	8 0 2			
Total Expenditure	3137 9 1			
To Balance carried to Profit and Loss Account	1218 4 6			
		£4355 13 7			

£4355 13 7

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No. 5. PROFIT AND LOSS ACCOUNT (Net Revenue) for the Year ended December 31st, 1909.

	£	s.	d.		£	s.	d.
To Dividend for Half-year ending December 31st, 1908 paid 16th February, 1909	515	0	0	By Balance brought forward 31st December, 1908	325	2	5
„ Interest on Debenture Stock to June 30th, 1909	33	13	9	„ Interest on Investments	14	3	2
„ Dividend for Half-year ending June 30th, 1909, paid 5th August, 1909	515	0	0	„ Revenue Account Profit for Year ended December 31st, 1909	1218	4	6
„ Interest on Debenture Stock to December 31st, 1909	33	13	9				
„ Bankers Interest on Temporary Loan	11	16	0				
„ Balance of Net Profit to be carried to next Account, subject to Dividend for the Half-year ending Dec. 31st, 1909	928	6	7				
	<u>£2057</u>	<u>10</u>	<u>1</u>		<u>£2057</u>	<u>10</u>	<u>1</u>

No. 6. RESERVE FUND ACCOUNT.

	£	s.	d.		£	s.	d.
To Balance on 31st December, 1909	1050	0	0	By Balance on 31st December, 1908	1050	0	0

No. 7. INSURANCE FUND ACCOUNT

	£	s.	d.		£	s.	d.
To Balance on 31st December, 1909	515	0	0	By Balance on 31st December, 1908	515	0	0

No. 8. STATEMENT OF COALS.

Description of Coal.	In Store 31st Dec., 1908.	Received during the Year.		Carbonised during the Year.		Used and Sold during the Year.	In Store 31st Dec., 1909.
		T.	C.	T.	C.		
Common	75	1075	0	1535	0	—	65

No. 9. STATEMENT OF RESIDUAL PRODUCTS.

	In Store 31st December, 1908. Estimated.	Made during the Year. Estimated.	Used during the Year. Estimated.	Sold during the Year.	In Store 31st December, 1909. Estimated.
Coke Tons	45	1,125	395	795	70
Tar Gallons	400	19,248	—	19,448	200
Sulphate of Ammonia .. Tons	—	10 Tons 6 Cwt.	—	10 Tons 6 Cwt.	—

No. 10. STATEMENT OF GAS MADE, SOLD, &c.

Description of Gas.	Quantity made as per Meter. Estimated.	Quantity Sold.		Quantity used on Works. Estimated.	Quantity accounted for.	Quantity not accounted for.	No. of Public Lamps.
		Private.	Total.				
Coal.	19,279,500	1,037,000	15,330,400	16,417,400	985,000	17,402,400	1,827,100

No. 11. GENERAL BALANCE SHEET.

	£	s.	d.		£	s.	d.
TO PROFIT AND LOSS ACCOUNT (Net Revenue) (No. 5).—				BY CAPITAL ACCOUNT (No. 3).—			
Balance at credit thereof	928	6	7	Balance at Debit thereof	1014	18	12
„ RESERVE FUND ACCOUNT (No. 6).—				„ Cash at Bankers	126	12	7
Balance at credit thereof	1050	0	0	„ Ditto in hand	12	5	2
„ INSURANCE ACCOUNT (No. 7).—							
Balance at credit thereof	515	0	0	„ Stock on hand, 31st December, 1909	753	14	6
„ Sundry Tradesmen, amounts owing by the Company for Coal, Stores, etc.	359	14	5	„ AMOUNTS DUE TO THE COMPANY.—			
„ Temporary Loan from Bankers	400	0	0	Gas and Stove Rentals	1025	8	8
				Residual Products, &c.	330	1	2
	<u>£3763</u>	<u>1</u>	<u>0</u>	„ INVESTMENT.—			
				Metropolitan Consols 3 per cent. Stock at par	500	0	0
					<u>£3763</u>	<u>1</u>	<u>0</u>

Being incorporated* under Act of Parliament the Harlow and Sawbridgeworth Gas Company, whose accounts are given above, is subject to the provisions of the *Companies Clauses Consolidation Act*, 1845, and the rather numerous subsequent enactments which amend and amplify that Act. The most important of these supplementary acts, from the book-keeper's point of view, is the *Gas Works Clauses Act*, 1871, which prescribes (in Schedule B) the form in which the annual accounts of gas undertakings must be published.

The student will note that the main feature of these accounts is that they require the adoption of the double-account system, and entail a careful analysis of items of income and expenditure.

As is the case with every undertaking working under the double-account system, all the expenditure which has been necessary in order to construct and equip the works up to the point when they are capable of earning revenue, is capitalized and appears in Statement No. 3. All further expenditure upon the work for maintenance, repairs, and renewals must be charged to Revenue as was explained to be the case with railway companies.

Fresh capital expenditure and a legitimate portion of the cost of reconstructions† may of course be treated as expenditure properly chargeable in Statement No. 3. Section 2 of the Companies Clauses Act, 1845, allows expenditure of an exceptional nature to be spread over a period of years.

Turning to the accompanying accounts it will be noted that the first three statements relate to the issue of share and loan capital and show the purposes for which the money raised has been expended. Although somewhat different in form, these accounts are identical in principle with the forms employed in the case of Railway Companies dealt with on pp. 524-529. Under a standing order passed in 1877, all new capital issued by gas undertakings must be offered by public auction or tender, and may not be offered pro rata to the existing shareholders as is the case in an ordinary commercial company. The statistical share Registers are identical with those in common use and have already been explained in this treatise.

The *Revenue Account* takes the place of the Trading, or Manufacturing, Account in an ordinary business, and shows the cost of manufacturing and distributing the gas produced and the proceeds realized by its sale.

The Gas Works Clauses Act, 1847, introduced what is known as the *Sliding Scale*, with reference to the dividends payable to shareholders. Prior to this Act the maximum dividends allowable were fixed by the special act or provisional order. Under the 1847 Act every reduction made by the Company of 1*d.* per 1,000 cubic feet in the "standard price of gas" supplied to customers carries with it the right to an increase of 5*s.* per cent. in the standard rate of dividend. In this manner both shareholders and consumers benefit by the reduction made in the standard price of gas as fixed in the act or order.

* It is not essential that a Gas Company should be incorporated, and there are still in existence some old Companies working under the Companies Acts. In the absence of the powers granted by incorporation, however, non-statutory gas undertakings unless conducted on a very small scale are greatly handicapped by lack of power to take up the public roads for the purpose of laying or repairing the mains, service pipes, etc.

† For example, if larger mains are laid in place of the small old ones a proportionate part of the cost may be legitimately capitalized.

Gas is sold to private consumers by meter, but in the case of public supplies contracts are frequently entered into. These two forms of supply must, in compliance with the Act, be set out separately. The readings of the gas consumed by customers, as taken by the inspectors, are recorded in the *State of Meter Book*, which is posted to the *Gas Ledger*, kept on the tabular method, similar in form to the *Water Company's Consumers Ledger*, given on page 358, subject, of course, to such alterations as may be necessary to meet the needs of the case.

An *Allowances Book* is kept for the record of all allowances made to customers, and in due course is posted to a column provided for the purpose in the *Gas Ledger*. In many Companies *Bad Debts* are also passed through the *Allowances Book*.

In cases where gas fittings, stoves, etc., are sold by the Company, a special *Fittings Ledger* is kept.

The "residuals" resulting from the manufacture of gas form an increasingly important source of income, and are preferably treated as a separate department. It is customary to record all sales of these materials in a suitably ruled *Residuals Sales Book* upon the columnar system. In due course the book is posted to an ordinary personal Ledger, called the *Residuals Ledger*. A separate *Cash Book* and *Ledger* are usually kept to record the deposits which in many cases are demanded from customers prior to the supply of gas.

The purchases and expenditure of a gas undertaking are dealt with in a like manner to those of an ordinary commercial concern and the columnar *Purchases Journals* and *Cash Books*, with which the student is already familiar, will efficiently record transactions of this nature.

It will be noted, on reference to the statutory form of *Revenue Account*, that the amount expended upon wages in the manufacture and distribution of gas must be separately stated. It is customary in order to meet these requirements to employ a *Wages Book*, in columnar form, analyzing the wages as between the handling of coal, carbonizing, purifying, and the other processes of manufacture. Columns are also provided for the wages expended upon repairs of mains, service-pipes, meters, public lamps, inspectors, and other costs of distribution. Further columns are necessary for the wages expended in new capital outlay.

The *General Ledger* contains, in the usual form, the necessary share and loan capital accounts, and the various asset accounts under suitable headings, and in no way differs from the methods with which the student is already familiar.

In cases where a *Sinking Fund* has been established for wasting expenditure upon leasehold property, or for other purposes, the necessary annual charge appears in the *Revenue Account*. Such provision should, with interest, of course, be adequate to replace the asset upon the expiration of the lease.

In cases where it is desired to create a *Reserve Fund*, the amounts transferred would be charged in the net *Revenue Account*, as such a Fund can only be raised by contributions from the amount available for distribution amongst the ordinary shareholders in excess of the standard rate of dividend. Such funds are frequently raised for the purpose of equalizing dividends. An *Insurance Fund*,* for

* Such a fund may be provided to meet any extraordinary claim or demand which may arise from accident, strike, or other circumstances which due care or management could not have prevented."

the purpose of meeting possible losses, may also be raised, but must be limited to an amount equal to one-twentieth of the paid-up loan and share capital. Both Funds must be represented by moneys invested outside the undertaking. The income derived from these investments must be added to the respective funds.

The conditions under which funds of the above nature may be created are set forth in the Gas Works Clauses Act, 1847.

The Profit and Loss or net Revenue Account deals with the amount available for distribution and its allocation for debenture interest and preference dividends. Any income arising from outside investments also appears in this account. The final balance of the account represents the amount available for dividend on the ordinary share capital.

The **General Balance Sheet** is similar in form and principle to that which we have already examined in the case of railway companies, and is self-explanatory.

The accounts of gas undertakings are closed as on December 31, in each year, and copies of them must be filed with the proper local authorities on or before March 25 annually.

THE MALAY STATES TOBACCO PLANTATIONS, LIMITED
1907 CROP COST ACCOUNT

Dr.	1908.		£	s.	d.	1908 Dec. 31	By Proceeds of Sale of Tobacco	£	s.	d.	Cr.
	Dec. 31	To Plantation Expenses— Coolie Brokerage and Passage Money	£4,338 2 6					81,520	16	4	
		Hospital Expenses	1,429 3 2								
		General Expenses	2,107 0 5								
	" 31	" Plantation Wages— Planting Wages	£16,853 4 8	6	1			7,871			
		Manufacturing Wages	5,298 3 6								
	" 31	" Plantation Salaries— European Staff	£8,421 6 4	8	2			22,061			
		Native Overseers	2,711 10 4								
		Watchmen	1,010 0 10								
	" 31	" Replacements and Repairs— Buildings and Granges	£4,927 4 10	17	6			13,172			
		Ways and Roads	2,101 10 6								
		Railway	257 8 9								
		Steam Launch	867 8 4								
		Lighters	122 10 2								
		Pier	346 11 11								
	" 31	" Loss by death of Coolies	9,102 11 6	11	6			9,102			
	" 31	" Commission on Crop to European Staff	1,228 10 4	10	4			1,228			
	" 31	" Balance, being gross profit carried to Profit and Loss Account ..	5,068 4 6	4	6			5,068			
			28,058 15 3	15	3						
			£84,506 16 4	16	4			84,506	16	4	

The annual statements of the Malay States Tobacco Plantations, Ltd., offer a good example of the accounts published by an English company owning and working a plantation abroad.

The tobacco crop is not ready for shipment until the close of the year, and does not reach Amsterdam (the tobacco market of Europe) for sale before May in each year. This fact leads to the somewhat unusual position disclosed in the accounts under review. The student will note that the "Crop Cost Account" deals with the crop of the previous year (1907) which, during the year 1908, reached Europe and was sold for £84,596 16s. 4d. The tobacco is sold outright by auction and tender, so that there are no stocks to be dealt with in the accounts.

Reference to the Balance Sheet will disclose an item: "*Expenditure to date on 1908 Crop, £64,450 18s. 6d.*" This represents the cost of the "1908 Crop" up to December 31, 1908, and is, in fact, within a short amount of the final total cost of the crop which, by this date, is in the drying sheds. As this amount entirely represents expenditure relative to the crop which is to be sold for the benefit of the coming year's accounts, it is carried forward as an asset in suspense so far as the current accounts are concerned. In due course, when the expenditure upon the tobacco is complete, the whole amount will be transferred to the "1908 Crop Cost Account."

It will be noted that the Crop Cost Account practically takes the form of a Trading Account, and contains the whole of the expenditure, upon the plantation, of the moneys remitted from this country to the Company's manager in the East. The "*Replacements and Repairs, £8,102 14s. 6d.*," will appear to be heavy at first sight, but it is the usual practice of all companies of this character to charge all building and other kindred expenditure against the revenue of the year. The tropical climate, white ants, and other causes render the life of the wooden or rattan erections in general use of short duration only, and expenditure of this nature is therefore very rarely capitalized unless unusually heavy in amount, in which case it is spread over a term of years. It is not uncommon among tea-planters—in India especially—to treat Machinery and Plant in the same manner. In these cases, therefore, the "Plantation Account," "Estate Account," or "Block Account," appearing in the Balance Sheet, as representing the chief asset, remains at a fixed figure from year to year.

The "*Loss by death of Coolies, £1,228 10s. 4d.*," arises from the fact that the labour used on the plantation is imported, and upon leaving home an advance is made to Coolies and treated as a loan to be worked off in labour subsequently. When Coolies die, therefore, any sums still to their debit on "Advance Account" become a loss to the Company and must be written off as such.

The Profit and Loss Account deals with the London expenditure of the Company, including the dividends paid, and is self-explanatory.

Reference to the Balance Sheet will show that this is a case where the Plantations Account is maintained at a fixed figure, no additions having been capitalized during the year.

The "*Sundry Debtors, £10,941 10s. 6d.*," is almost entirely composed of "Advances to Coolies," and, as previously explained, does not contain any outstanding accounts for tobacco sales, which are "Cash Sales" to all intents and purposes.

The remaining items in the Balance Sheet do not require explanation.

Jameson, Conway and Phelps.

STATEMENTS OF ACCOUNT

FOR THE YEAR ENDED

DECEMBER 31st, 1908.

Dr.		£	s.	d.
1902.				
Dec. 31	To Counsels' Fees.....	3,650	6	6
" 31	" Disbursements (made on behalf of Clients and charged in bills as per Contra).....	8,485	10	6
" 31	" Stationery on behalf of Clients.....	1,095	8	6
" 31	" Shorthand Writers on behalf of Clients.....	140	9	8
" 31	" Advertising on behalf of Clients.....	109	16	9
" 31	" Balance carried down.....	23,450	9	4
		£26,982	1	3
1903.				
Dec. 31	To Salaries of Staff.....	6,844	19	6
" 31	" House Expenses (Coal, Gas, Water and Rates, etc.).....	568	10	2
" 31	" Office Expenses & Incidentals.....	639	16	6
" 31	" Rent.....	894	16	9
" 31	" Certificate Duty.....	700	0	0
" 31	" Accountants' Charges.....	83	10	0
" 31	" Allowances and Perquisites.....	100	0	0
" 31	" Proportion of Lease Account written off.....	809	10	6
" 31	" Balance carried down.....	£00	0	0
		14,525	0	8
		£24,466	4	1
1908.				
Dec. 31	To Mr. Jameson—			
	Interest on Capital..... £300 0 0			
	Share of Profit..... 5,530 0 4	5,830	0	4
" 31	" Mr. Conway—			
	Interest on Capital..... £250 0 0			
	Share of Profit..... 4,147 19 4	4,397	10	4
" 31	" Mr. Phelps—			
	Interest on Capital..... £150 0 0			
	Share of Profit..... 4,147 10 0	4,297	10	0
		£11,525	0	8

Dr.

BALANCE SHEET,

Dr.		£	s.	d.
1908.				
Dec. 31	To Partners' Capital Accounts—			
	Mr. Jameson..... £6,000 0 0			
	Mr. Conway..... 3,000 0 0			
	Mr. Phelps..... 3,000 0 0			
" 31	" Partners' Drawing Accounts—			
	Mr. Jameson..... £2,100 0 0			
	Mr. Conway..... 1,850 0 0			
	Mr. Phelps..... 1,520 0 0			
" 31	" Sundry Creditors—			
	Sundry Clients..... £3,200 10 2			
	Counsels' Fees unpaid..... 2,840 11 0			
	Parliamentary Disbursements..... 3,806 11 2			
	Sundry Persons..... 450 10 1			
		10,292	2	5
		£29,762	2	5

AND PHELPS, SOLICITORS
for the year ended December 31, 1908

547

Cr.

1908.		£	s.	d.
Dec. 31	By Costs charged out to Clients (including Disbursements as per Contra made on behalf of Clients charged in Bills)—			
	Chancery.....	£5 641 10 2		
	Common Law.....	3,261 5 9		
	Parliamentary.....	9 962 16 8		
	Agency.....	17,896 10 4		
		86,762	2	11
„ 31	„ Copies of Documents supplied.....	169	18	4
		£86,932	1	3
1908.				
Dec. 31	By Balance brought down.....	23,450	9	4
„ 31	„ Premiums from Articled Clerks.....	500	0	0
„ 31	„ Interest and Commission.....	125	14	9
„ 31	„ Rents (Sublettings).....	240	0	0
„ 31	„ Directors' Fees paid by the Partners.....	150	0	0
		£24,466	4	1
1908.				
Dec. 31	By Balance brought down.....	14,525	0	8
		£14,525	0	8

December 31, 1908

Cr.

1908.		£	s.	d.
D.c. 31	By Premium on Lease Account, as on Dec. 31, 1907.....	£920 0 0		
	Less Amount written off.....	300 0 0		
		620	0	0
„ 31	„ £200 Consols (Stamp Duties, Investment) at cost.....	197	10	0
„ 31	„ Furniture and Fittings, as on December 31, 1907.....	1,000	0	0
„ 31	„ Sundry Debtors—			
	Chancery.....	£5,842 9 1		
	Common Law.....	3,241 16 4		
	Parliamentary.....	6,891 14 1		
	Agency.....	5 814 6 4		
		21,820	5	10
„ 31	„ Cash at Bank.....	£1 452 10 6		
„ 31	„ Cash held on behalf of Clients.....	2,562 0 0		
„ 31	„ Cash on Deposit.....	2 000 0 0		
„ 31	„ Cash in hand.....	109 16 1		
		6,124	6	7
		£20,762	2	5

The annual accounts of Messrs. Jameson, Conway and Phelps, solicitors, furnish an example of a form frequently employed, especially by the larger firms in the profession.

The student will note that the first section of the Profit and Loss Account is credited with the gross amount of the bills of costs for the year's work. The debits appearing in the same section relate solely to the various disbursements which have been made on behalf of clients, and have been duly included in the costs appearing on the credit side of the account. The balance of this account does not, therefore, represent in any way the gross profit made, but merely shows the net amount of the fees earned during the year for the professional work accomplished.

The second section of the Profit and Loss Account (to which the above net total of fees earned has been carried down) is charged with all the expenses incidental to the carrying on of the office work of the firm, such as Salaries, Stationery, Rent, etc., and shows a balance which represents the Net Profit earned by the firm. This Net Profit is carried down to the appropriation section, and, after charging interest upon capital, is then divided amongst the partners in accordance with the terms of the partnership agreement.

Duplicate copies of all the bills of costs sent in are usually collected every half-year, and bound in half-yearly departmental volumes. In addition to the bills actually sent in there will always exist in a solicitor's office bills, frequently termed "loose bills," which consist of loose sheets on which the charges on uncompleted matters are entered. In order that the actual work completed within the year may be properly taken credit for, it is necessary to pass a Journal entry through the books debiting in detail the individual clients concerned, and crediting "Costs Account" with the total of the amount represented by these loose bills. Care must, however, be taken to reverse these entries when, in due course, the bills are completed and bound in their respective half-yearly volumes.

In some firms it is the practice to take credit for such bills only as have been actually delivered, the matter being treated upon a cash basis. This, however, is an unsatisfactory method of procedure, as, if large matters remain open at the close of any given period, the succeeding Profit and Loss Account is unduly credited with work which has been largely accomplished in a previous period.

On the other hand, solicitors frequently receive payment in advance for work which they undertake to perform. In such cases care must be taken that credit is only taken for such portion of the work as has been actually completed within the period covered by the accounts. The balance of the payment in advance must be treated as clients' moneys in hand.

It will be noted that the sum received as "Premiums from Articled Clerks, £500," has been credited to the Profit and Loss Account for division amongst the partners, together with the general profits.

It is the practice with some firms to credit all premiums received from this source to the individual partner to whom the clerk or clerks in question are articled. In these cases the premiums would not, of course, appear in the Profit and Loss Account, but would be credited direct to the Drawing Account of the particular partner concerned.

When, as sometimes happens, such premiums are paid in advance in a lump sum, they should be apportioned in appropriate instal-

ments over the period they cover, usually five years, the unearned balance being carried forward by means of a Suspense Account.

The small cash fees earned by the partners as Commissioners of Oaths for affidavits, declarations, etc., are almost invariably, as in the present case, treated as the personal earnings of the individual partner concerned, and do not appear in the accounts of the firm at all.

On referring to the Balance Sheet it will be noted that the Capital Accounts of the partners consist of "fixed" amounts, and that all drawings, interest and share of profits are dealt with in the separate Drawing Accounts of the partners in the manner previously explained on page 230. The credit balances of these accounts are separately set out in the Balance Sheet, and show the amount which each partner is entitled to withdraw as at the date of the Balance Sheet.

It will also be noted that a premium has been paid for the lease of the offices occupied by the firm, which is being gradually extinguished by means of transfers to the debit of the Profit and Loss Account.

The Investment (Consols £200) stands in the names of the senior partner and the Secretary of Inland Revenue, and is maintained in order that stamp duties may be paid by cheque instead of by cash only. When this procedure is followed, cheques will be accepted at Somerset House in payment of stamp duties, and this practice affords considerable convenience.

It will be noted that the furniture has not been depreciated, a recent valuation having proved higher than the sum at which the furniture stands in the books of the firm.

The student will note that no credit has been taken for the stock of stationery in hand at the close of the period. The value of such stock frequently amounts to a considerable sum, and, strictly speaking, it should be credited in the Profit and Loss Account, and set out in the Balance Sheet as an Asset in the ordinary way.

It will also be noted that all moneys held on behalf of clients are stated separately, and are represented by distinct and separate accounts at the firm's bank. This is a healthy practice in the case of a professional firm. A recommendation that clients' moneys should be so dealt with was contained in the report of the Special Committee of the Incorporated Law Society (April 1900).

The accounts are otherwise self-explanatory.

THE CONSOLIDATED GOLD FIELDS OF SOUTH AFRICA, LIMITED
BALANCE SHEET, June 30, 1908

Dr.	Cr.
£	£
CAPITAL AND LIABILITIES.	PROPERTY AND ASSETS.
Capital Authorized and Issued—	Investments—
2,000,000 Ordinary Shares of £1 each.....	Shares in Companies at or under Cost.....
1,250,000 6 per cent. Preference Shares of £1 each.....	Properties and Ventures.....
	Investments on Account of Reserve.....
Reserve—	
Invested in British Government Stock.....	Loans at Short Call.....
Invested in the Company's Business Assets.....	Sundry Debtors and Dividends declared.....
	Cash Advances and Mortgages.....
Liabilities—	Real Estate and Buildings.....
5½ per cent. Debentures issued at 95, and redeemable at par, by 24 annual drawings, of which the twelfth is due July 1, 1908.....	Office Furniture.....
Sundry Creditors.....	Stock and Sundry Assets.....
Bills Payable.....	Cash at Bankers and in hand.....
Preference Dividend—	
Six months due at date.....	
Debenture Interest—	
Six months due at date.....	
Proprietors' Unclaimed Warrants and Coupons—	
Debenture Interest.....	
Preference Dividends.....	
Ordinary Dividends.....	
Profit and Loss Account—	
Balance at Credit.....	
Contingent Liabilities—	
Uncalled Capital on Investments, etc.....	
£7,022,738	£7,022,738

CONSOLIDATED GOLD FIELDS OF SOUTH AFRICA, LIMITED.

PROFIT AND LOSS ACCOUNT, 1st July, 1907, to 30th June, 1908

Dr.

Cr.

£	s.	d.	£	s.	d.		
Directors' Fees, Salaries, Office and other Expenses, London, Paris, and Berlin, less Amounts received from other Companies.....	31,693	0	9	Profits realized by Sales of Investments, Dividends, Commission and Sundry Receipts, less Amounts written off.....	733,885	13	11
Engineering Department, Office Salaries, and other Expenses, South Africa, less Amounts received from other Companies.....	19,341	1	5	Transfer fees.....	750	12	3
Subscriptions and Donations.....	2,897	11	3				
Debiture Interest.....	17,875	0	0				
Balance carried down.....	662,749	3	9				
	£734,606	6	2		£734,606	6	2
Depreciation of Investments, Amount written off.....	200,536	6	2	Balance brought down.....	662,799	3	9
Preference Dividend, 6 per cent. for year.....	75,000	0	0	Balance from Appropriation Account.....	85,167	13	2
French Government Duty and Stamps.....	4,179	15	5				
Balance carried to Balance Sheet.....	408,260	15	4				
	£747,966	16	11		£747,966	16	11

✓ APPROPRIATION ACCOUNT (Last Financial Year)

Dr.

Cr.

£	s.	d.	£	s.	d.
Ordinary Dividend, 12½ per cent., paid December, 1907.....	250	000	0	0	0
Balance carried to Profit and Loss Account	85	167	13	2	2
	£335	167	13	2	2

£	s.	d.	£	s.	d.
Balance at Credit of Profit and Loss Account, 30th June, 1907.....	335	167	13	2	2
	£335	167	13	2	2

The Balance Sheet of the Consolidated Gold Fields of South Africa, Ltd., illustrates a typical Balance Sheet of a large financial company. The company in question has formed and floated a number of subsidiary companies to work individual gold-mining areas, and, as the "parent" company, holds large blocks of shares in these undertakings, together with many other properties.

The item calling for special notice on the Liabilities side of the Balance Sheet is the Reserve of £2,000,000; this is shown as being invested to the extent of one-half "in the business," the balance being invested in British Government Securities, the corresponding investments for which appear as amounting to £935,016 8s. 9d. on the credit side of the statement; the difference between the Investments enumerated, and the nominal amount of the Invested Reserve (£1,000,000) is presumably due to depreciation or other causes.

The balance of the Reserve (£1,000,000), as stated above, is "invested in the business"; in other words, none of the investments or assets held are specifically earmarked as representing it, and the Reserve is merely covered, in company with the Share Capital, by the General Assets of the undertaking.

There appear on the Balance Sheet as a memorandum (not included in the additions of the Balance Sheet columns) contingent Liabilities amounting to £106,051 2s. 6d. in respect of "Uncalled Capital on Investments." This item represents the uncalled portion of the shares held by the Company, the amount of which it is liable to be called upon to pay at any time.

In the Profit and Loss Account it will be noticed that a net sum of £733,885 13s. 11d. was made by realizing investments, by dividends, commissions and other items, after allowing for an unspecified provision for depreciation and losses of various descriptions; the stating of this combined net total is doubtless due to a desire, similar to that of trading companies, not to prejudice the company by disclosing to its rivals complete details of its internal working. A further sum of £200,526 6s. 2d. is written off as depreciation of investments in the second portion of the account.

Probably the asset which presents the greatest difficulty from the valuation point of view is "Property and Ventures, £74,065 12s. 8d." This item presumably consists largely of mining "claims" in various stages of development, and expenditure upon "exploration" and other ventures. In cases where mining development is in its early stages, the stock of gold-bearing earth or rock which has been accumulated on a gold-mining property often presents great difficulties from a stocktaking point of view. Of course in the case of alluvial mines, where the gold is free and uniform in character, the local Banks will generally buy the dust outright, and valuation difficulties are not therefore great. But in cases where the gold has to be retorted from quartz, valuations of the "banked" material present much greater difficulties. In many cases low-grade ores entail heavy expenditure in "dressing" before they are marketable, or before smelting or other process can be proceeded with.

The remainder of the items are of a comparatively simple nature and are self-explanatory.

The Peninsular and Oriental Steam
Navigation Company.

STATEMENTS OF ACCOUNT

FOR THE YEAR ENDED

SEPTEMBER 30th, 1908.

PENINSULAR AND ORIENTAL
STATEMENTS OF ACCOUNT
GENERAL WORKING

Dr.

EXPENDITURE.	£	s.	d.
Expense of Navigating Ships, etc.—			
Charter, including freight and ball charges.....	£743,860	19	0
Lightering and L. and O. S. and Water.....	30,471	17	4
Port and Light Dues, Pilotage, Towage, and Miscellaneous Ships' Charges.....	215,514	4	11
Pay of Commanders, Officers and Crews.....	328,180	1	2
	1,324,027	2	5
Provisioning of Passengers, Commanders, Officers and Crews.....	304,704	12	0
Suez Canal Dues—On Ships and Passengers.....	329,576	13	8
General Administration at Home and Abroad, viz.—			
Directors' and Auditors' Fees.....	£5,105	0	6
Salaries and Wages of Employees at Home and Abroad, all Stations.....	116,916	4	10
Rents, Taxes, Fire Insurance and Repairs of Premises, all Stations.....	15,592	3	10
Telegrams, Telephones, and Stamps, all Stations.....	10,549	4	1
Advertising, all Stations.....	15,801	10	0
Stationery and Printing, all Stations.....	6,815	0	1
Office and House Expenses, Travelling Charges, etc., all Stations.....	14,306	4	10
	184,585	7	8
Reduction of Establishments—			
Payments during the year on this Account.....	260	0	0
Miscellaneous Expenses—			
Damages, Claims on Cargo, and Law Charges.....	£23,794	7	11
Life Assurances of Employees—Company's Contribution.....	4,043	2	1
Expenses of Steamers laid up.....	11,345	7	2
Quarantine Charges.....	1,860	0	9
	41,042	17	11
Ships' Repairs, Stores, and General Maintenance Charges during present year.....	185,308	1	5
Income Tax on Profits (balance).....	3,208	2	1
Interest on $8\frac{1}{2}$ per cent. Debenture Stock.....	63,000	0	0
Insurance Charges, viz.—			
Fire Insurance in Port, and risks to and from Antwerp, etc.....	£8,581	5	2
General Average claims, Damages through stress of weather, and other casualties.....	12,455	2	8
	20,986	7	10
Stock in Ships—			
Amount carried to that Account for Depreciation on Fleet during the year.....	374,143	17	0
Surplus—			
Dividends due June 1, 1903, viz.—			
On Preferred Stock, $2\frac{1}{2}$ per cent.	£29,000	0	0
On Deferred do. $3\frac{1}{2}$ „	40,600	0	0
	69,600	0	0
Dividends due December 18, 1903—			
On Preferred Stock, $2\frac{1}{2}$ per cent.	£29,000	0	0
On Deferred do. $6\frac{1}{2}$ „	75,400	0	0
Bonus on do. do. 3 „	34,800	0	0
	139,200	0	0
Balance to be carried forward, 1903-1909.....	58,425	3	11
	197,625	3	11
	267,225	3	11
	£23,098,068	5	11

STEAM NAVIGATION COMPANY
for the year ended September 30, 1908
ACCOUNT

ACCOUNT		Cr.	
RECEIPTS.		£	s.
Amount brought forward from last Account	£157,328 19 9		
Less Dividends, etc., due December 31, 1907	139,200 0 0		
Passage Money	£1,168,265 15 0	18,128	10 9
Freight, Charters, and Miscellaneous Services	1,520,080 19 5		
Government Contract Services—		2,688,346	14 5
India, China and Australia (net amount)		309,921	10 1
Russian Government—Settlement effected through the Foreign Office for seizure of s.s. "Malacca"		10,000	0 0
Interest, Discount, and Exchange—			
Balance of Account		71,670	15 8
<div style="position: absolute; top: 0; right: 0; width: 100%; height: 100%; border-left: 1px solid black; border-bottom: 1px solid black;"></div>			
		£3,098,068	5 11

PENINSULAR AND ORIENTAL STEAM NAVIGATION COMPANY

RESERVE ACCOUNT

Dr.	£	s.	d.	Cr.
Balance carried forward to next year	1,250,000	0	0	Balance brought forward from last year
				£ 1,250,000
				s. 0
				d. 0

SUSPENSE ACCOUNT

Dr.	£	s.	d.	Cr.
Balance carried forward to next year	250,000	0	0	Balance brought forward from last year
				£ 250,000
				s. 0
				d. 0

GENERAL BALANCE SHEET, September 30, 1908

Dr.	£	s.	d.	Cr.
ASSETS, ETC.				LIABILITIES, ETC.
Stock in Ships, viz.—				Capital authorized
Reduced Book Value of Fleet at				Issued in Cumulative 5 per cent.
September 30, 1907	£3,550,751	6	10	Issued in Preferred Stock
Debt amount written off Fleet, as				Issued in 7 per cent Stock
per General Working Account....	874,143	17	0	Debtenture Stock at $3\frac{1}{2}$ per cent.
Payments on account of New Ships.....	3,185,607	9	10	Reserve Account
Steam Tenders, Launches, and Lighters ..	675,824	6	11	Suspense Account
Coal, Naval and Victualling Stores	104,961	1	9	Provident Good Service Fund
Graving Docks, Workshops and Machinery, Wharves,	58,615	18	8	Sundry Balances, and Accounts not closed
Buildings and Land (Freehold and Leasehold), Moor-				General Working Account—
ings, etc., at all Stations	237,130	16	8	Surplus
Out at Bankers, in hands of Agents, and Investments	2,679,974	7	0	Less Dividends June 1, 1908.....
(less acceptances)				
	£30,942,114	0	10	197,025
				£36,942,114
				s. 0
				d. 10

The Peninsular and Oriental Steam Navigation Company is one of the greatest of the British Shipping lines, and its accounts form a good illustration of the published accounts of a company owning a fleet of vessels both for cargo and passenger service.

The most lengthy statement published is the General Working Account, *i. e.* the Trading or Profit and Loss Account.

In connection with this statement it will be noted that, in contrast with some of the trading companies previously dealt with, the Company under review appears to have found it feasible to publish a full statement of its trading.

Turning to the Working Account, it will be noted that the largest items on the credit side are those of receipts for Passage Money from passengers (£1,168,265 15s.), and those for the conveyance of Goods (Freight), the leasing of vessels (Charters), and miscellaneous services (£1,520,080, 19s. 5d.). The Company possesses Government contracts for the conveyance of mails, and has received £309,921 16s. 1d. under this heading. An exceptional receipt also appears on this side of the account, *viz.* a sum of £10,000 paid by the Russian Government, presumably as compensation for the seizure of the steamship *Malacca*.

On the debit side of the account are set forth the various items of loss or expenditure incurred during the year—the heaviest expenditure being, as is natural, that upon coal. The dues payable to the Suez Canal authorities for the use of the canal are large (£329,576 13s. 8d.), as also is the amount written off the Company's fleet (£374,143 17s.).

The Reserve and Suspense Accounts show that the Company possesses accumulations of profits amounting to one and a half million pounds.

The Balance Sheet has been prepared (according to modern British practice) with its sides reversed, the Liabilities appearing on the credit side, and the Assets on the debit side; this practice is, however, customary both on the Continent and in America.

The items set forth in the Balance Sheet are, for the most part, self-explanatory, reference may however be made to the item of "Sundry Balances and Accounts not closed, £1,074,488 16s. 11d." What this item really represents it is impossible, in view of the vagueness of the description, to say. Any and every Balance on either side of a Balance Sheet could be thus described or grouped together, and the item cannot be regarded as lucid. It might be entirely composed of amounts owing to creditors, or again it might, though it is hardly likely, be entirely an additional reserve. The item doubtless *includes* the amounts owing to the Company's creditors; but beyond this it is impossible to say what the description covers.

The Cash Balance is stated as follows, *viz.* "Cash at Bankers, in hands of Agents, and Investments (*less Acceptances*), £2,679,974 7s. This entry lacks lucidity, and could be amplified with advantage; the balance of "Cash at Bankers" should, in the author's opinion, have been stated separately, and not merged with the less readily realizable assets of Book Debts and Investments. Again, the sums due from agents should have been set forth in a separate total. The Investments should preferably have been stated separately, and their nature and valuations added. Finally, the deduction of acceptances outstanding (*i. e.* certain *liabilities*) from the cash balance, or the total of the liquid assets, is a form of entry which, in a book-keeping sense, cannot be approved.

BARCLAY, PERKINS
BALANCE SHEET,

	£	s.	d.
To Capital—			
10,200 Ordinary Shares of £100 each, issued fully paid	£1,020,000	0	0
180,000 4 per cent. Cumulative Preference Shares of £10 each, fully paid.....	1,800,000	0	0
	2,820,000	0	0
, 3½ per cent. Mortgage Debenture Stock—			
Part of Authorized Amount of £1,700,000 secured by Trust Deed and fully paid..	£1,450,000	0	0
Interest accrued thereon	12,687	10	0
	1,462,687	10	0
„ Special Reserve Account—			
Balance as per last account	£101,739	8	8
Less Losses on Loans to Publicans, written off, etc.	£32,954	1	7
Less Loss by Fire on Bishop Stortford Maltings	4,667	13	7
Less Provision for depreciation of Tenancy Loans ..	20,531	2	2
	48,155	17	4
	53,583	10	11
„ Mortgage Sinking Fund Account.....	72,752	15	4
„ General Reserve Account.....	60,000	0	0
„ Depreciation of Investments Reserve	82,489	5	0
	268,825	11	8
„ Liabilities on Mortgage of Public Houses. Loan and Interest accrued	82,643	5	6
„ Publicans' Trade and other Deposits, with Interest accrued	176,481	17	7
„ Loans secured on Investments	825,000	0	0
„ Outstanding Interest and Dividends	140	9	8
„ Sundry Creditors, Trade and other Accounts	£56,546	16	8
„ Beer Duty (March).....	17,738	7	0
	74,305	3	8
„ Profit and Loss Account—			
Balance as at March 31, 1908.....	£21,635	12	8
Less Transferred to Mortgage Sinking Fund.....	14,255	15	8
	7,377	17	0
Add Profit as per annexed Account.....	90,704	10	1
	98,082	7	1
Less Preference Dividends.....	72,000	0	0
	26,082	7	1
	£5,236,116	4	9

NOTE.—Contingent Liability on Guarantee of Customers' fixed term Mortgages, subject to value of Property so charged, less value of Sub-Mortgage held by Company, £575,000.

Dr.

PROFIT AND LOSS ACCOUNT,

	£	s.	d.
To Depreciation of Buildings, Machinery, Leasehold Property and Furniture, etc., other than Depreciation on Tenancy Loans charged to Special Reserve.....	40,430	19	0
„ Interest on First Mortgages, Loans, etc.	11,934	14	9
„ License Compensation Levies	5,458	7	0
„ Income Tax Debit	178	11	0
„ Balance carried down.....	141,454	10	1
	£199,457	1	10
	£	s.	d.
.. Interest 3½ per cent. Debenture Stock.....	50,750	0	0
.. Balance carried to Balance Sheet.....	90,704	10	1
	£141,454	10	1

March 31, 1909

Cr.

	£	s.	d.
By Freehold and Leasehold Brewery, Plant, Machinery, etc.—			
Balance as per last Account.....	£97,791	15	8
Additions to date.....	21,862	19	7
	719,614	15	3
Less Depreciation and Sales, etc.	18,068	12	2
	700,976	3	1
Goodwill.....	358,988	15	8
Freehold and Leasehold Public and other Houses, Reversionary and Equities.....	948,287	18	6
Loans to Publicans and Interest accrued thereon to date, including Houses in hand, Trade Debtors and Outstanding Accounts.....	£2,738,782	3	6
Less Reserve.....	327,519	19	0
	2,411,262	4	6
Stocks of Beer, Malt, Hops, and Supplies (at cost), Casks, Horses, Drays, Motor Wagons and Furniture.....	188,121	0	0
Investments at Cost, viz.—			
British Railway Debentures and Preference Stocks and Municipal Loans, with Interest accrued thereon (value at date, £345,485).....	£402,748	8	11
Sinking Fund, Trade and other Investments.....	125,905	12	3
	618,654	1	2
Cash at Bankers and on hand.....	14,826	1	10
	£5,236,116	4	9

* The deeds of four of the above properties, valued at £23,212 8s. 0d., have been deposited as collateral security for contingent liability per contra.

for the year to March 31, 1909

Cr.

	£	s.	d.
By Gross Profit on Trading, after making Provision for Bad and Doubt- ful Debts.....	184,680	3	7
Interest on Investments.....	14,710	12	0
Interest on Deposit with Bankers.....	61	3	3
Transfer Fees.....	55	3	0
Income Tax Credit.....	—	—	—
	£199,457	1	10
	£	s.	d.
Balance brought down.....	141,454	10	1
	£141,454	10	1

Messrs. Barclay, Perkins & Co., Ltd., are brewers, and their Balance Sheet may be taken as typical of the Balance Sheets published by the great brewery companies.

The principal point calling for consideration in the case of a brewery company arises out of its commitments in regard to what are known as "tied houses." For many years past it has been the practice of the big brewery companies to invest largely in the leaseholds, freeholds, and goodwill of numerous public-houses, doubtless in order that they shall possess an assured and sufficient series of depots for the sale of their products. The great majority of these establishments were sub-let to individual publicans; and, in addition, many individual tenants of hotels, restaurants and public-houses were granted substantial advances on first or other mortgage of their premises or goodwill, in order to enable them to acquire their premises, or to start in business for themselves. It was always, of course, a *sine quâ non* in regard to these sub-leases, or loans, that no malt liquors should be sold at the houses in question other than those produced by the particular brewery making the advance, hence the derivation of the term "tied houses." At the time when this extensive amount of financing took place, there was current a "boom" in the value of licences, partly arising out of the competition to buy them among different brewers, and partly due to the limited supply—the magistrates frequently refusing to grant licences to newly-erected houses.

Of late years, many brewery companies have suffered severely through losses arising out of their tied houses; it may be said that almost without exception the value of licensed properties has fallen throughout the country owing to various causes, and that the brewers, in whose hands the majority of this class of property had become collected, either as owners or mortgagees, have naturally sustained serious losses. In many cases, the amount lent upon, or invested in tied houses, largely exceeded all the other assets appearing in a brewery company's Balance Sheet; and the company became not only brewers, but also constant lenders of funds upon property connected with the sale of their manufactured products.

The losses sustained through tied houses are exemplified in many brewery companies' Balance Sheets more conspicuously than in the one under review, in which the losses are not striking; but even in this Balance Sheet the largeness of the sum locked up in loans on licensed property is evident. The loans to publicans (with interest), including houses in hand (*i. e.* houses taken possession of under the mortgage for one reason or another), trade debtors and outstanding accounts amount in the Balance Sheet set out above to £2,411,262 4s. 6d., *i. e.* nearly half the total assets of the concern. In addition to this, £943,287 18s. 6d. has been invested in the acquisition of Freehold and Leasehold Public and other Houses, Reversions and Equities. As against these two large totals of assets two transfers from the Special Reserve Account, apparent on the debit side of the Balance Sheet, are of a significant nature, *viz.* that for "Losses on Loans to Publicans written off, etc., £22,954 1s. 7d.," and "Provision for Depreciation of Tenancy Loans (*i. e.* loans to tenants of licensed premises owned by the Brewery), £20,534 2s. 2d." In order to be in a position to lend freely on licensed property many brewery companies receive money on deposit at interest from the public. In the Balance Sheet under review these liabilities appear under "Publicans' Trade and other deposits, with interest accrued, £176,431 17s. 7d."

The Company owns, as shown by its Balance Sheet, investments of the book value of £492,748 8s. 11*d.* (the market value of which is £345,435) and Sinking Fund, Trade and other Investments amounting to £125,905 12s. 3*d.* These investments are not entirely at the Company's disposal, as a reference to the Liabilities side of the Balance Sheet shows that it has raised loans, secured on them, amounting to £325,000.

The Company has further created a sinking fund for the redemption of certain mortgages, and has set aside a sum of £72,752 15s. 4*d.* as a reserve in this direction out of profits. The setting aside of the reserve appears to have been accompanied by the withdrawal of a corresponding amount of cash from the business, and its investment in the form of a sinking fund policy taken out with an Insurance Company (*i. e.* a policy to secure the payment of a fixed sum at a given date, an annual or other periodical premium being payable until that date arrives).

The "Licence Compensation Levies, £5,458 7s. 0*d.*," are obligatory contributions towards a fund established by the Government for the compensation of the owners of licensed premises, the licence of which is withdrawn by the magistrates on grounds other than the default of the licensee.

There appears on the liabilities side of the Balance Sheet an amount of £17,758 7s. 0*d.* owing by the Company in respect of "Beer duty for the month of March 1909" (*i. e.* the last month of the period covered by the accounts). This represents the amount of the Government Duty on the beer manufactured during the month in question, and is owing to the Excise authorities. In order to facilitate the due collection of this duty, all breweries are obliged to keep a book called an "Excise Brewing Book," which is always open to the inspection of the Excise officer, and from this book is derived the information upon which the duty payable to the Government is calculated; it contains details of the materials and quantities employed in brewing the beer, of the resultant manufactured product, and much other technical information.

The note appended on the liabilities side at the foot of the Balance Sheet is one which discloses the existence of a contingent liability for a considerable amount, and one, moreover, which appears to have arisen out of the practice, common among breweries, of financing and assisting their customers in various ways on condition of their becoming "tied" to the brewery as regards the sale of malt liquors. There exists "a contingent liability on guarantee of customers' fixed term mortgages, subject to value of property so charged, less value of sub-mortgage held by company for £579,200." This note would appear to convey the fact that the brewery company has guaranteed to the persons from whom certain of its customers have borrowed money on mortgage of their premises, the due repayment of the sums so lent to the customers; the brewery doubtless taking, by way of security, a sub-mortgage of the premises so hypothecated, the customer, at the same time, becoming "tied" to the exclusive sale of the brewery's products.

The remainder of the items in the Balance Sheet are to a great extent of an ordinary nature, and require no special mention.

J. LYONS & CO.,
PROFIT AND LOSS ACCOUNT,

	£	s.	d.
To Salaries, Wages, Rents, Rates, Repairs, Maintenance, Horse-keep and other expenses	681,454	4	11
„ Balance carried down.....	287,851	11	11
	£969,305	16	10
	£	s.	d.
„ Depreciation	67,452	17	8
„ Debenture Stock Interest	17,625	0	0
„ Balance carried to Balance Sheet	202,773	14	8
	£287,851	11	11

. BALANCE SHEET,

CAPITAL AND LIABILITIES.		£	s.	d.
To Capital Authorized—				
400,000 Ordinary Shares of £1 each	£400,000	0	0	
500,000 5 per cent. Cumulative Preference Shares of £1 each.....	500,000	0	0	
	£900,000	0	0	
„ Capital Issued—				
331,000 Ordinary Shares of £1 each fully paid	331,000	0	0	
500,000 5 per cent. Cumulative Preference Shares of £1 each fully paid.....	500,000	0	0	
„ Liabilities—				
First Mortgage Debenture Stock at 4 per cent.....	£300,000	0	0	
Accrued Interest on ditto, less tax	2,850	0	0	
4½ per cent. Debenture Stock	125,000	0	0	
Accrued Interest on ditto, less tax	1,335	18	9	
Trade and other Creditors, and Credit Balances.....	137,365	0	4	
Dividends unclaimed	529	18	4	
	567,080	17	5	
„ Reserve	480,000	0	0	
„ Profit and Loss Account—				
Balance as per last Account	£121,267	13	8	
Less Final Dividend on Ordinary Shares for half-year ending March 31, 1908, at the rate of 40 per cent. per annum	£66,200	0	0	
Transferred to Reserve.....	40,000	0	0	
Proportion of Preference Share Divi- dend to March 31, 1908	8,333	6	8	
	114,533	6	8	
	£6,734	7	0	
To Balance from account for the year ending March 31, 1909.....	202,773	14	8	
	£209,508	1	8	
Less Preference Dividend from date of last Balance Sheet to Nov. 30, 1908 £16,666 13 4				
Interim Dividend on Ordinary Shares already paid for half-year ending September 30, 1908, at the rate of 25 per cent. per annum	41,375	0	0	
	58,041	13	4	
	151,466	8	4	
	£2,029,547	5	9	

for the year ending March 31, 1909

	£	s.	d.
By Gross Profit on Trading, etc., after deducting special Exhibition expenses, to March 31, 1909.....	962,734	8	9
„ Interest and Transfer Fees, etc.....	6,571	5	10
	£969,305	13	19
„ Balance, being Profit for the year ending March 31, 1909.....	287,851	11	11
	£287,851	11	11

March 31, 1909

PROPERTY AND ASSETS.	£	s.	d.
By Freehold Land, Buildings and Leasehold Premises, Fixtures, etc., as last year (after depreciation) and subsequent outlay, including Expenditure on Uncompleted Works.....	£1,125,380	14	2
Less Estimated Depreciation for the year.....	22,010	0	6
	1,103,370	1	8
„ Outlay for sundry installation expenses.....	9,245	16	4
Less written off.....	4,201	0	4
	4,984	16	0
„ Goodwill, as per last Account.....	39,189	10	0
„ Stock-in-Trade, as per Inventories, etc., at cost or under.....	247,946	10	1
„ Sundry Debtors (after providing for bad and doubtful debts) and other Debit balances.....	54,754	1	4
„ Insurances, Rents, etc., Paid in Advance, and Deposits on Stocks in Bond.....	42,778	14	11
„ Plant, Machinery, Fittings, Ovens, etc., as last year (after depreciation) and subsequent outlay.....	£290,222	17	9
Less Estimated Depreciation for the year.....	45,442	16	9
	253,780	1	0
„ Sundry Investments and Secured Loans and Interest accrued after providing an Estimated Depreciation.....	202,918	17	0
„ Cash at Bankers on Current and Deposit Account, and in Hand.....	79,824	1	9
	£2,029,547	5	9

Messrs. J. Lyons & Co., Ltd., are the well-known firm of caterers, restaurant and tea-shop proprietors owning numerous restaurants and depots, principally situate in London.

The majority of the items in the Balance Sheet are of a comparatively simple nature, and do not call for explanation. The amount shown among the assets for Goodwill is £39,189 10s. 0d., which is doubtless far below the real value of the asset in question, and indicates a sound condition of affairs. The profits for the year ending the 31st of March, 1909, are shown as being over £200,000, a figure which affords a striking contrast to the low valuation placed upon the Goodwill.

In a company engaged in a highly competitive business such as this, the Profit and Loss Account can usually only be shown in summarized form. This procedure has been adopted in the Profit and Loss Account subjoined, in which the Gross Profit on trading and the expenses of the business appear, in each case, in the form of a single total of large amount.

Among the liabilities, it will be noted that the item "Trade Creditors, etc.," embraces also "Credit Balances." It is to be presumed that sundry reserves and suspense accounts have been provided in the Company's books for accrued liabilities or anticipated losses or wastages. It has not, however, been deemed necessary to disclose the nature of these provisions in the published accounts.

The depreciation provided for the wasteage which has occurred during the year in connection with the "Leasehold Premises, Fixtures, etc.," viz. £22,010 0s. 6d., is probably one of the most important items in the accounts of the Company. The accuracy of the profit figure arrived at depends, of course, upon the adequacy or otherwise of this estimate. Doubtless in the case of the Company under review ample provision has been made.

It will be noted that the "Stock in Trade, £247,946 10s. 1d." has been valued at cost *or under*.

The "Debit Balances" included with the Sundry Debtors consist presumably of certain accrued but unpaid income, and of sundries of the opposite nature to those which are provided for in the item "Credit Balances" referred to above as appearing among the liabilities.

It will be noted that the investments in hand, £202,918 17s. 0d., are not ear-marked as being held on account of the "Reserve." It must, therefore, be assumed that the Reserve shown, £480,000 0s. 0d., is invested in the business generally. The nature of the investments held might have been appended with advantage; presumably they are to a certain extent of the "gilt-edged" or readily realizable variety, but to what extent it is impossible to state; it is also possible that, under the heading of "Sundry Investments," interests in subsidiary companies and allied undertakings are included.

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The accounts of Water Companies are scheduled, amongst those of other undertakings, in the syllabuses of several examining bodies, and inquiries are naturally made by the student as to the form and nature of accounts of such concerns. The above accounts of the well-known Colne Valley Water Company will prove interesting and instructive to the student.

The student will note, in the first instance, that the form of the above account is, subject to the needs of the case, almost precisely similar to that employed by Gas Companies. The various acts regulating the formation and management of Water Companies do not stipulate that the accounts shall be prepared in any particular form. The statutory forms* applicable to Gas Companies have by general custom been largely adopted by Water Companies. The Double Account system is employed and the usual statement of "Capital" is followed by a "Capital Account," "Revenue Account" and "General Balance Sheet."

The position of a Water Company is almost identical with that of a Gas Company. Under certain restrictions the Company has practically been granted a monopoly for the supply of a prime necessity to a given district. Water is used for Domestic, Trade and Public purposes, and suitable records of each class of supply are necessary. The parliamentary powers possessed by the Company regulate the charges made for domestic supplies, but the charge is almost invariably based upon the rental value of the house occupied by the customer. Supplies for trade and public purposes are frequently made under contract arranged by bargain between the customer and the Company.

The bulk of the book-keeping of a Water Company represents the detailed record of the domestic supplies. A form of a Water Company's **Consumers Ledger** is given on page 358 and its uses are explained on page 357. In the case of large Companies separate Ledgers of this description are kept for each district served by the Company. As a general rule such Ledgers are provided with sufficient columns to last about four years. Bad Debts, and similar losses, are passed through the "allowances" columns. In cases where water is supplied at a given rate per 1000 gallons, the procedure and record are practically identical with those of a Gas Company. A **Meter Book**, or **Laid on Book**, is kept containing particulars of the water consumed as taken by the inspectors. This book is, in due course, posted to the **Meter Rent Ledger**, which is ruled in the necessary number of columns and contains information similar to that given in a Gas Rental Ledger (see p. 539).

The general book-keeping of a Water Company differs but little from that of an ordinary commercial concern. The income from the various sources is collected in the General Cash Book in daily or weekly totals from the subsidiary Cash Books. The **Purchases Journal** is kept in columnar form, and great care is necessary in the analysis of purchases as between Capital and Revenue, a large number of columns being provided, as is the case with Gas Companies, for the analysis of the purchases under the various Capital and Revenue headings appearing in the published accounts.

In similar manner the wages need careful analysis under the same headings and for the same purpose. Under the *Companies Clauses*

* *Schedule B, Gas Works Clauses Act. 1871.*

Consolidation Act, 1845, a Register of Shareholders, Shareholders' Address Book, Register of Mortgages and Bonds and a Register of Stock, are necessary. Under the *Waterworks Clauses Act, 1847*, the dividends distributed by Water Companies shall not exceed the prescribed rate, or, where no rate is prescribed, 10 per cent. on the paid up capital. Deficiencies in the prescribed rate which have occurred in previous years may, however, be made up. A **Reserved Fund** may be accumulated at compound interest out of any profits remaining after the payment of the prescribed rate of dividend, until such fund has reached the sum prescribed in the Company's Act, or to a sum equal to one-tenth of the nominal capital, in cases where no prescribed limit has been fixed for the Reserved Fund. Such Fund is available for the equalization of dividends or to meet any extraordinary claim or demand that may arise. When the Reserved Fund has reached the prescribed limits, the income arising from the investment of the Fund may be applied to the general purposes of the undertaking. A copy of the published accounts must be sent annually, on or before January 31, to the Clerk of the Peace for the County in which the water works are situated.

The principle to be observed in the allocation of expenditure as between Capital and Revenue, already described with reference to Gas Company Accounts, applies in precisely similar manner to Water Company Accounts. The reservoirs, plant, and equipment are deemed to be *permanent* in character, and all repairs and renewals are charged to Revenue. In some cases a fixed annual amount is charged to Revenue and carried to a *Renewals Account*, against which the expenditure actually incurred is charged. This method appears to be the best that can be adopted. It has the advantage of equalizing the charge in respect of Renewals, which often fluctuates considerably.

The accounts of the Salvation Army are kept upon modern and business-like methods, and it is a matter of regret that the same commendation cannot be applied to the accounts of many other religious and charitable institutions.

Owing to limitations of space the Balance Sheet only is reproduced here. The published accounts consist, in addition, of a General Income and Expenditure Account, Foreign Service General Fund, Foreign and Colonial Territories Fund, Indian Famine Fund, Rents and Interest Account, and Self-Denial Fund. All these Income and Expenditure Accounts are kept upon efficient Double Entry principles, and are presented with ample detail. The resulting balances of the accounts are transferred to the second section of the General Income and Expenditure Account, the net balance of which, in turn, is carried to the "Salvation Army Fund," as shown in the accompanying Balance Sheet.

The student will note that wastages of various classes are provided for by means of Reserve and Sinking Funds, the total Reserves so created amounting to £177,364 7s. 1d. The Reserve for "Specific Legacies" will probably present a new item to many students. The need for such a Fund arises from the fact that from time to time legacies are left to the Salvation Army on condition that the income derived therefrom is to be applied to some specific purpose (*e.g.* the Army's work in India). In these cases the moneys so left are not available for ordinary Revenue purposes, and it becomes necessary to create a Liability in the shape of a Reserve Fund, represented, upon the Assets side of the Balance Sheet, by specially ear-marked Investments, forming part of the total Investments held.

The items "Self-Denial Fund" and "Colonial and Foreign Territories Fund" are the credit balances outstanding upon these funds, and represent moneys yet to be allocated to various branches of the Army's work.

The "Salvation Army Fund" takes the place of the Capital Account in a commercial concern, and represents the amount by which the Assets exceed the Liabilities. The student may perhaps, at first sight, wonder why a sum representing Donations and Subscriptions has been taken direct to the Capital Account. As these donations were given, however, for the specific purpose of erecting buildings, it will be seen, upon consideration, that they are "Capital" donations, and could not with propriety have been passed through the Income and Expenditure Account.

It will be readily understood by the student that in an Institution with so many ramifications and varied interests, the books of the Salvation Army necessarily contain a vast amount of detail of varying natures. In order that the immense amount of work involved may be expeditiously and economically dealt with, books upon the "Columnar" system (as explained in Chapter XVIII) are employed as far as possible, and all Ledgers are designed upon the "Self Balancing" system, the advantages of which are explained in the early part of the same chapter.

THE MIDLAND BLAST FURNACES, LIMITED
FURNACE ACCOUNT for the year ended December 31, 1908

Dr.				Cr.			
		£	s. d.		£	s. d.	
1908.				1908.			
Dec. 31	To Furnace Wages	6,702	12 6	Dec. 31	By Sales of Slag (net)	4,604	1 2
" 31	" Coal (including carriage)	6,420	10 2	" 31	" Sales of Sand	141	11 10
" 31	" Coke (including carriage)	17,924	1 1	" 31	" Wagon Hire	321	0 10
" 31	" Limestone	1,621	0 4	" 31	" Pig-iron produced (transferred to Pig-iron Trading Account) cost per ton, 37/5 ¹	34,457	7 7
" 31	" Ironstone	6,352	8 9				
" 31	" Sundry Materials	1,281	4 0				
" 31	" Works Salaries	—	—				
" 31	" Land Damages and Compensation	102	4 1				
		£ 39,524	1 5		£ 39,524	1 5	

PIG-IRON TRADING ACCOUNT for the year ended December 31, 1908

Dr.				Cr.			
		£	s. d.		£	s. d.	
1907.				1908.			
Dec. 31	To Stock of Pig-iron at this date (cost per ton, 35/6 ¹)	8,122	10 0	Dec. 31	By Sale of Pig-iron	50,010	4 4
1908					Less Short-weight Claims ...	92	10 0
Dec. 31	" Cost of Pig-iron produced, as per Furnaces Account	34,457	7 7	" 31	" Pig-iron consumed in Foundry	10,481	15 8
" 31	" Sundry Trade Claims	6,220	8 6				
" 31	" Balance carried to Profit and Loss Account	12,284	3 11				
		£ 61,084	10 0		£ 61,084	10 0	

THE MIDLAND BLAST FURNACES, LIMITED
 PROFIT AND LOSS ACCOUNT for the year ended December 31, 1908

PROFIT AND LOSS ACCOUNT for the year ended December 31, 1908									
Dr.								Cr.	
		£	s	d.	100%.		£	s.	d.
1908.									
Dec. 31	To Management Salaries and Directors' Fees.....	2,500	0	0	Dec. 31	By Balance from Pig-iron Trading Account, ...	12,284	8	11
" 31	" Reserve for Bad and Doubtful Debts.....	500	0	0	" 31	" Interest received.....	198	4	2
" 31	" Depreciation—								
	Plant, Rolling Stock, etc. £2,500 0 0								
	Coal and Coke Wagons..... 150 0 0								
	Balance carried down, being net profit for	2,050	0	0					
" 31	the year.....	6,741	8	1					
		£12,482	8	1	1908.		£12,482	8	1
					Dec. 31	By Balance brought down.....	6,741	8	1

BALANCE SHEET, December 31, 1908

LIABILITIES.		£	s	d.	ASSETS.		£	s.	d.
TO Capital—					By Works, Plant, Rolling Stock, etc	£33,080	0	0	
Nominal Capital, 100,000 Shares of					Less Depreciation.....	2,500	0	0	
£1 each	£100,000	0	0		„ Coal and Coke Wagons	£3,150	0	0	30,580
					Less Depreciation	150	0	0	
				0	„ Stock on hand—				3,000
		50,000	0	0	„ Coal.....	£240	2	1	
		8,941	3	1	„ Coke.....	688	4	2	
		10,000	0	0	„ Limestone.....	600	1	0	
		6,741	8	1	„ Limestone.....	35	4	0	
					„ Pig-iron.....	10,981	15	8	
Issued 50,000 Shares of £1 each fully paid up					„ Sundry Debtors.....	£15,329	0	0	12,545
„ Sundry Creditors.....					Less Depreciation for Bad and				
„ Reserve Account					Doubtful Debts.....	500	0	0	
„ Profit and Loss Account (Balance).....					„ Sundry Investments at cost				14,829
					„ Cash at Bank.....	£9,642	10	1	4,800
					„ Cash in hand.....	85	14	2	9,028
									£75,682
				11					11
				2					2

A perusal of the accounts of the Midland Blast Furnaces, Ltd., will probably introduce to the student a form of presenting trading results with which he is not familiar. But although the form of these accounts is unfamiliar, the principles upon which they have been drawn are those which the student has been instructed to employ in order to arrive at the trading results of ordinary commercial undertakings.

It is of paramount importance to the iron-master to ascertain exactly what the pig-iron he produces is costing him per ton. The "Furnaces Account" has been drafted with a view to supplying this information. All expenses which form any part of the actual cost of *producing* the pig-iron in a condition ready for sale are debited against the account. The only credits appearing in relief of such cost are (a) the sales of "slag," the waste product largely used for road repairing, which is removed from the furnaces when drawing off the molten iron, and (b) the sale of surplus sand in which the "pigs" are cast in the "pig beds," into which the molten iron is run off every 12 hours. The small item of "Wagon Hire" represents income earned by the Company's Coal and Mineral Wagons in the haulage of materials for neighbours. The balance of the "Furnaces Account," thus arrived at, shows the actual cost of the pig-iron produced by the furnaces during the year, and enables the cost price per ton (in this case 37s. 5½d.) to be accurately ascertained.

The balance of the "Furnaces Account" is carried forward to the debit of the "Pig-iron Trading Account," to which are also debited the "Trade charges," incurred in selling the iron produced, and the initial stock with which the trading for the period was commenced. The net sales of pig-iron are credited to the account, together with a small item, "pig-iron consumed in Foundry," representing iron taken out of stock for use in the Company's foundry and repairing shop. After crediting the final stock on hand at the close of the year, the balance of this account represents the Gross Profit, which is carried forward to the Profit and Loss Account. The usual items are debited and credited in this account, and the balance, representing the net amount of profit available for distribution, is carried down.

The Profit and Loss Account, as described above, takes the place of the "Net Profit and Loss Account" or the "Appropriation Section" of a Profit and Loss Account prepared upon normal lines.

If any interim dividends had been paid during the year they would have been shown in this account.

The Balance Sheet follows, in due course, and is prepared upon lines in which the Assets are set out in the reverse order of their realizability. The student will note that the "Stock on hand" contains stocks of coal, coke, ironstone, etc., which are not set out in the Trading Account. This arises from the fact that, in the accounts representing these purchases, the initial and final stocks are passed through the Ledger Accounts themselves, and the balances, representing the *net* purchases for the year, are transferred to the debit of the "Furnaces Account."

For example, the "Coal Account," through which the carriage on coal is also charged, would appear in the Ledger as follows—

COAL ACCOUNT						Cr.				
Dr.										
		L.F.	£	s.	d.		L.F.	£	s.	d.
1907.						1908.				
Dec. 31	To Stock at this date....		350	4	6	Dec. 31	By Stock at this date. carried down	240	2	1
1908.										
Dec. 31	„ Purchases for the year		5,668	6	7	„ 31	„ Transfer to "Furnaces Account" ..	6,420	10	2
„ 31	„ Carriage on same.....		642	1	2					
			£ 6,660	12	3			£ 6,660	12	3
1908.										
Dec. 31	To Stock brought down		240	2	1					

The Coke, Ironstone and Limestone Accounts are treated in precisely the same manner, the net balances, representing the actual cost (including carriage) of the raw material when placed in the furnaces, being transferred to the "Furnaces Account." The student will realize, therefore, that under this method the debit balances representing the Stocks of these materials carried forward to the next year, are outstanding as Assets upon the Ledger, and must be set out in the Balance Sheet together with the stock of finished pig-iron credited in the "Pig-iron Trading Account."

The remainder of the Balance Sheet is self-explanatory.

ASSURANCE COMPANIES ACT, 1909 — FIRST SCHEDULE.

REVENUE ACCOUNT OF THE PRUDENTIAL ASSURANCE COMPANY LIMITED (ORDINARY BRANCH)

FOR THE YEAR ENDING 31ST DECEMBER, 1910, IN RESPECT OF LIFE ASSURANCE BUSINESS

	£	s	d		£	s	d
Amount of life assurance fund at the beginning of the year ...	£39,784,184	17	9	Claims under policies paid and outstanding —			
Amount transferred from sickness assurance account ...	437	8	3	By death ...	£1,096,070	13	10
				By maturity ...	2,144,886	5	10
				Surrenders, including surrenders of bonus ...	...	...	...
Less amount transferred to the Industrial Branch, being proportion of profits ...	105,700	0	0	Annuities ...	...	...	...
Premiums ...	...	...	...	Commission ...	...	...	...
Consideration for annuities granted ...	...	...	...	Expenses of management ...	...	...	...
Interest and dividends ...	£1,584,482	16	0	Amount transferred to investments reserve fund ...	...	...	...
Less income tax thereon ...	88,897	7	8	Amount of life assurance fund at the end of the year, as per Third Schedule ...	...	...	...
					£46,131,563	10	1
					3,240,956	19	8
					615,738	10	2
					142,512	10	1
					286,240	3	10
					120,153	0	4
					300,000	0	0
					41,425,962	6	0
					£46,131,563	10	1

During the year 80,311 policies were issued assuring £7,462,496. £11,069 was received by way of single premiums. The yearly renewal premium income was £446,473.
No business is transacted out of the United Kingdom

ASSURANCE COMPANIES ACT, 1909.—FIRST SCHEDULE.
REVENUE ACCOUNT OF THE PRUDENTIAL ASSURANCE COMPANY LIMITED (INDUSTRIAL BRANCH)
 FOR THE YEAR ENDING 31ST DECEMBER, 1910, IN RESPECT OF LIFE ASSURANCE BUSINESS.

	£	s.	d.		£	s.	d.
Amount of life assurance fund at beginning of the year ...	£31,543,696	8	5	Claims under policies paid and outstanding—			
Amount transferred from Ordinary Branch under Regulations of the company ..	108,700	0	0	By death ..	£2,559,301	3	8
Balance of bonus under life policies reserved for distribution at the beginning of the year ...	...	...	...	By maturity ..	53,261	8	2
Premiums ..	...	...	...	Bonus additions paid to 31st December ..	222,506	13	5
Interest, dividends and rents ..	£1,211,864	11	4	Surrenders ..	...	...	...
Less income tax thereon ..	62,910	11	3	Bonus to Superintendents and Agents ..	...	...	...
				Commission :—	...	...	...
				Agency charges, including salaries of 17,863 agents for the weekly collection of premium from 17,211,432 policies ...	£1,343,115	0	7
				Special new business charges ..	641,734	1	7
				Expenses of management :—			
				Policy, postage, and receipt stamps (Head Office only) ..	£18,557	12	3
				Superintendency charges ...	246,370	16	3
				Medical fees ..	61,330	18	5
				Head Office expenses 'A. ...	523,027	13	0
				Dividends and bonus to shareholders ...	...	...	...
				Amount transferred to investments reserve fund ...	...	...	...
				Balance of bonus under life policies reserved for distribution	200,000	0	0
				Amount of life assurance fund at the end of the year, as per Third Schedule ..	128,395	10	1
					33,454,266	7	0
					£40,315,569	6	0

During the year 2,306,412 policies were issued, assuring £20,316,799.

No business is transacted out of the United Kingdom.

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ASSURANCE COMPANIES ACT, 1909.—THIRD SCHEDULE.

BALANCE SHEET of the PRUDENTIAL ASSURANCE COMPANY LIMITED. BEING THE SUMMARY OF BOTH BRANCHES ON THE 31ST DECEMBER, 1910.

LIABILITIES.		ASSETS.	
	£ s. d.		£ s. d.
Shareholders' capital	1,000,000 0 0	Mortgages on property within the United Kingdom	8,043,111 11 8
Life assurance fund—		Mortgages on property out of the United Kingdom	nil
Ordinary Branch	41,426,983 6 0	Loans on parochial and other public rates	14,797,498 19 8
Life assurance fund—		Loans on Life Interests	1,127,253 8 11
Industrial Branch	33,424,288 7 0	Loans on Reversions	102,561 18 8
	74,850,238 13 0	Loans on Stocks and shares	104,009 0 0
Investments reserve fund	1,376,000 0 0	Loans on Company's policies within their surrender values	3,082,811 13 8
Claims admitted or intimated but not paid	173,690 13 8	Loans on Personal security	nil
Annuities due and unpaid	2,011 9 2	Loans to Educational Institutions secured on income, etc.	61,235 11 7
Balance of bonus under life policies reserved for distribution	128,395 10 1	Investments.—	
		Deposit with the High Court (£24,400 2½%)	
		Consolidated stock	19,520 0 0
		British Government securities	2,707,777 10 10
		Bank of England stock	162,902 18 7
		Municipal and county securities, United Kingdom	864,554 15 6
		Indian and Colonial Government securities	6,670,176 14 0
		Indian and Colonial provincial securities	959,178 11 1
		Indian and Colonial municipal securities	2,341,331 3 6
		Foreign Government securities	3,137,900 13 9
		Foreign provincial securities	162,258 9 8
		Foreign municipal securities	1,640,863 9 4
		Railway and other debentures and debenture stocks and gold and sterling bonds—Home and Foreign	13,221,420 0 11
		Railway and other preference and guaranteed stocks and shares	3,468,527 7 5
		Railway and other ordinary stocks and shares	3,734,754 1 4
		Rent charges	353,308 7 3
		Freehold ground rents and Scotch feu duties	4,740,200 10 0
		Leasehold ground rents	7,921 1 1
		House property	3,933,471 17 9
		Life interests	34,426 14 6
		Reversions	1,465,105 12 6
		Agents' balances	6,713 3 4
		Outstanding premiums	456,294 3 6
		Outstanding interest and rents	70,808 9 11
		Interest accrued but not payable	612,464 2 10
		Bills receivable	nil
		Cash—	
		On deposit	20,000 0 0
		In hand and on current accounts	443,265 10 5
	£77,529,228 6 0		£77,529,228 6 0

The values of the Stock Exchange securities are determined, under the regulations of the Company, by the Directors. These values have been compared with the middle market prices on 31st December, 1910, due allowance being made for accrued interest, and the difference is more than provided for by the investments reserve fund.

We certify that in our belief the Assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein less the investments reserve fund taken into account.

FREDK. SCHOOLING, } Joint Managers
A. C. THOMPSON, }

D. W. STABLE, } Joint Secretaries.
J. SMART, }

THOS. C. DEWEY, Chairman.

W. J. LANCASTER, } Directors.
I. H. LUSCOMBE, }

The accounts of the Prudential Assurance Company, Limited, will be especially interesting to the student who is familiar with the accounts of assurance companies as hitherto published under the regulations of the Act of 1870. The *Assurance Companies Act, 1909*, came into force on July 1, 1910, and the accounts of all assurance companies must now be framed in accordance with the schedules attached to that Act. The accounts printed here are the first issued by the Company under the new Act, and will repay careful exami-

nation and comparison with those published under the old regulations.

The first thing the student will probably notice is that the new Act has not embraced the opportunity afforded of bringing assurance accounts into line with modern accounting principles. The items of which the Revenue Account is composed still appear, as formerly, on the wrong sides of the account from the modern book-keeper's point of view. It is not the Company, it should be noted, but the statute which is in fault, as the first schedule of the Act of 1909 prescribes the form here employed. Reference to the Balance Sheet will show that outstanding items of both income and expenditure have been taken into account, *e. g.* "Annuities due and unpaid," "outstanding premiums," "outstanding interest and rents," etc. It will be clear, therefore, that the form prescribed is not a Cash Account but an Income and Expenditure Account, and it is a matter of regret that the account has not been brought into technical accord with the accepted form as employed under Double Entry methods.

Turning to the details appearing in these Revenue Accounts, it will be noticed that the Interest and Dividends are stated *gross* and the income tax deducted therefrom in accordance with the new regulations. On the other side of the account the claims are separated as between payments upon "death" and at "maturity," and the words "paid and outstanding" are added. In the Revenue Account of the Industrial Branch it is interesting to find that some analysis of the "Expenses of Management" is given. This is doubtless a convenient proceeding, although the terms of the First Schedule do not call for the information. The same remark applies to the item "commission."

It will also be noted that, in accordance with the requirements of the third schedule, the Balance Sheet gives considerably more detail with regard to the Investments than was formerly required. The Assets are now classified under thirty-four headings as against the twenty-two of the old Balance Sheet.

The investment of the deposit of £20,000, required by Section 2 of the new Act, will be seen under the heading "Investments."

As no separate Annuity Fund appears in the Balance Sheet it is presumed that this fund is merged in the Life Assurance Fund.

The Schedules of the 1909 Act, as published by every assurance company, in so far as they apply, are filed annually with the Board of Trade, and are printed in a "Blue Book," which in due course finds its way to the table of the House of Commons.

In the Revenue Account (Ordinary Branch) the student will note that the claims paid are not now described as "after deduction of sums re-insured." As the Schedule prescribes that all premiums must be stated *net*, the addition of these words is unnecessary.

The terms "Ordinary" and "Industrial," as applied to the two branches of the above Company's business, indicate, in the former case, those policies the premiums upon which are paid quarterly, half-yearly or annually. The latter term indicates those policies the premiums upon which are payable weekly or monthly.

The item "Surrenders" represents the sums paid by the Company to those of the Policy-holders who elect to discontinue the policies they hold, receiving therefor a proportionate sum of the amount covered by the policies they surrender. No policy carries any "surrender value" until the premiums for at least three years have been paid in the "Ordinary" Branch, or those for five years in the

"Industrial" Branch in the case of "Endowment" policies. Under certain circumstances a surrender value is allowed upon Industrial policies also, but such payments are *ex gratia*, and not a matter of right. The item "Bonuses in Cash" does not appear in the accounts of this year. Such payments represent that portion of the Company's profits which are allocated to the Ordinary policies, the average rate of the bonuses, in the case of the Company under review, being 32s. per cent. per annum.

The item "Commission" represents the sum paid during the period to the Company's agents by way of a percentage upon the premiums collected upon the Policies issued through the efforts of the agents.

It will be noted that the Revenue Account (Ordinary Branch) is charged with an amount of £300,000 to meet the shrinkage in the market values of the Investments held by the Company. The Industrial Branch is charged with a like transfer, amounting to £200,000. The Reserve Fund to which these transfers have been made is included in the item "Investments Reserve Fund £1,375,000" appearing among the Liabilities in the Balance Sheet. This Reserve Fund has been considerably reduced in recent years by large sums written off the value of securities held.

It will be noted that the Balance shown upon the Revenue Account is carried forward to the next financial period, and is shown in one sum among the Liabilities in the Balance Sheet. This item does not in any sense represent the profit earned during the period. The profits of an assurance company can only be ascertained by means of a periodical valuation, which takes place, in the case of the Company under review, every year, but in the case of most Companies every fifth year.

An account called a "Valuation Balance Sheet" is prepared, and the unexpired risks running upon the whole of the policies issued by the Company are ascertained by means of an actuarial valuation, and the total of the outstanding Liability thus arrived at is debited in the above account, and on the other (credit) side the Assets available to meet the total Liabilities as disclosed by the valuation are set out, the balance of the two sums being the surplus, or the deficiency for the period, as the case may be.

A specimen of a Valuation Balance Sheet of the above Company is as follows—

VALUATION BALANCE SHEET

	£	s.	d.		£	s.	d.
*Liability under Assurance and Annuity Transactions (as per Summary Statement provided in Schedule S).....	16,244,497	0	0	Life Assurance and Annuity Funds (as per Balance Sheet under Schedule 4)	17,156,393	0	0
Sickness Assurance	220	0	0	Sickness Assurance Fund	558	0	0
	16,244,717	0	0				
Surplus	912,234	0	0				
	£17,156,951	0	0		£17,156,951	0	0

* In the ordinary branch valuation the "Institute of Actuaries (H^M) Table" is used, and, in the Industrial branch, "Dr. Farr's English Life Table No. 3," the rate of interest in both cases being 3 per cent.

The item "Agents' Balances," scheduled in the Balance Sheet as an Asset, may appear to be heavy. It must, however, be remembered that, in the case of the Industrial Branch, each agent remits the premiums collectible (known as the Agents' "Collectible Debit") for the one week during the course of the following week, and that, therefore, at any given date, a considerable sum is necessarily in the hands of the Company's agents awaiting remittance. The item in question will also, doubtless, include some "arrears"; no agent, however, is allowed to remain in the Company's debt to a greater extent than an amount representing three times the amount of his weekly "collectible debit."

The student will be wise carefully to study the accompanying accounts in conjunction with the chapter on "Assurance Accounts" (Chap. XXIV.), where the new forms of accounts are fully discussed.

CHAPTER XXVI

HINTS TO EXAMINATION CANDIDATES

It has fallen to the author's lot, for many years past, to examine papers in book-keeping and accountancy subjects in greater number, perhaps, than falls within the experience of many men. It has been suggested from several quarters that, for this reason, therefore, some hints to candidates arising out of the experience thus gained might prove helpful. It is possible, and indeed probable, that much that is set down hereunder may prove trite and commonplace to many readers; but, on the other hand, there may be others who will glean some helpful suggestion from one or other of the hints which follow, and if this should prove to be the case the present chapter will have justified its inclusion in this treatise.

The subject-matter under consideration divides itself naturally into two divisions, viz.—

1. How to acquire the necessary knowledge.
2. How to use knowledge acquired to the best advantage in the examination room.

To take the first point—

The acquisition of Knowledge, or Preparation.—Which is the best way of acquiring a good knowledge of book-keeping? The problem is not an easy one, nor is any dogmatic prescription available. The solution of the question must always depend largely upon the circumstances surrounding it, and the opportunities available to the individual student in question. There will, however, be general agreement that book-keeping is probably one of the most difficult of subjects to teach theoretically in School or Class. Practical experience is apparently more essential for the development of a really good book-keeper than is the case with almost any other branch of knowledge. There is only one school in which practical book-keeping can be satisfactorily learned, and that school is a counting-house; actual experience must always be the best of teachers. Obviously, however, with a large proportion of students, practical work follows, and is to some extent the result of preliminary preparation.

The first advice the author would offer to the student, therefore, is to urge him not to attempt to teach himself book-keeping. It is pre-eminently a subject upon which

an ounce of practical teaching is worth the proverbial ton of theoretical reading.

If it is in any way possible, the student should join some school or class under a qualified teacher. There is now, fortunately, no lack of competent teaching of practical and modern methods. Indeed the improvement in this direction, as evidenced by the worked examination papers sent in by examinees, as compared with the standard attained only a few years ago, is most marked and encouraging.

It is particularly urged that the student should make himself thoroughly acquainted with the most modern forms of Cash Books, Petty Cash Books, Sales and Purchases Journals, etc. It is upon books of this nature that the young recruit will probably be first set to work upon his entry into commercial life, and it is important that he should have as little as possible to *unlearn*, in connection with the work he will have to undertake. The author's advice to the young student is:—Choose the easier task, therefore, and *learn* in the first instance the uses and methods employed in keeping books of this class in their latest and most modern forms. Examination work furnishes ample evidence that there is still, in some instances, much to be learnt in connection with the detailed working of subsidiary books of this nature. Make sure, therefore, that the knowledge you are now gaining laboriously will not fail you when put to the actual test of the requirements of modern practical book-keeping.

It will be unnecessary to urge as another axiomatic fact that no student, however able, can hope to pass the test of modern examinations without diligent and methodical study, supplemented by the expert help and friendly criticism of a qualified teacher. Yet lack of method in preparation is the only too evident cause of failure in the case of a considerable percentage of students. Portions of the subject have been well mastered, whilst other equally important and even preliminary steps to the foundation of a sound knowledge of book-keeping have been neglected. (For instance, some students can prepare a Profit and Loss Account and Balance Sheet from a given Trial Balance with accuracy and good knowledge, whilst failing entirely to submit correct work in entering up the subsidiary books from which a Trial Balance has to be built up;) yet, of course, it is just upon the keeping of these subsidiary books that the young book-keeper's first essay upon practical commercial life is to begin.

Be careful, therefore, that your preparation is methodical and thorough. Do not attempt to fly before you can walk; consider carefully your own weak points or ask advice upon them; and devote special time and attention to their rectification.

In this direction should be found one of the great benefits to be obtained from class attendance, as the student to a large extent, at any rate, is kept to a methodical course of preparation.

Up to this point, therefore, the author's advice is (1) Acquire, at all costs, method in your preparation. Map out a clear and careful plan of campaign for your preparatory work, and a methodical time-table of working hours, and adhere loyally to it. (2) Read consecutively through the selected text-book, and master the fundamental principles of book-keeping before you undertake any of the kindred subjects that the examination you are preparing for may embrace.

Having selected your text-book, the next question to decide is which is the best method to adopt in endeavouring to digest its contents. The consideration of this point raises all the bristles of the much-vexed question of note-taking. It would probably be hard to find a subject upon which students differ more radically than in their methods and manner of note-taking. Upon a matter, into the solution of which the *idiosyncrasies* of the individual student must so largely enter, dogmatism is, of course, out of place. The author is, however, of opinion that a careful synopsis of each chapter read will prove of value to the student, not only for future reference, but as a means of compelling him to think out and analyze, in a carefully-digested form, the various aspects of the matter he has read, and to single out the points it is essential for him to commit to memory. (The mere fact that information exists in a student's note-book does not, of course, ensure its being in his head also—the two things are not necessarily synonymous, care must however be taken to make them so.) A note-book prepared with care and discrimination and well digested mentally is, without doubt, a valuable aid to the great majority of students.

In the author's opinion a portion of the student's preparation, which is almost as important as the acquisition of the necessary knowledge, is often omitted by many students, and that is, ample practice in putting down *in writing*, in clear and concise language, answers to exercises and examination questions which have been previously set.

The usual practice with many students is to run hastily through sets of old examination questions with a brief "Oh, I know all that!" or, in case of doubt or ignorance, a short reference is perhaps made to the text-book; having done which the student passes on his way. Now, it is of course easy to pass by questions, as satisfactorily answered, with ejaculations of the above character, but it is quite another thing to put down *in writing* a clear and concise answer that will carry good marks upon examination. The student may think that the importance of this point is unduly emphasized or exaggerated. This is not the opinion of the author. (The one thing that stands out pre-eminent in the experience of examiners on book-keeping subjects, is the small percentage of students who appear to be able to properly complete the work set within the limit of the time allowed.) There is, of course, an ancient, and probably irremovable, conviction amongst candidates, that every examination paper is, as a matter of course, unfairly long. In the great majority of cases the conviction is legendary; but the fact remains that a large number of candidates fail to do themselves justice in the examination room owing to their inability, through lack of practice, to convert knowledge possessed clearly and concisely into words on paper within a reasonable time.

The author's advice, therefore, upon this point is, as will already have been gathered, to answer in writing, *just as you would in an examination room*, as many exercises and past examination questions as you can secure the time for. Indeed the student may wisely devote at least one-fourth of the whole of the time set apart for preparation work to the answering of questions in this way.

It will be helpful discipline, too, for the student to time himself when answering complete papers; in this way he will obtain a useful gauge of his progress.

This takes us to the second point of our subject: **How to use acquired knowledge to the best advantage in the examination room.**

There is probably no prospective candidate who reads these words who could not explain his views as to examination questions in general with eloquence. The author does not propose to enter into the controversy. The trouble, it is feared, is not epidemic, but chronic, and the symptoms are apparently common to the genus candidate all the world over. The author has frequently noticed, however, that, as a rule, those gentlemen who

have had the least to say to the questions inside the examination room have invariably the most to say about them outside that room.

Another firmly-rooted conviction still surviving amongst some examinees appears to be that the majority of examination papers contain some deep and dangerous trap or pitfall for the unwary candidate. Under this conviction some candidates waste much precious time hunting for the bogey.

If the author's assurance is accepted upon this point, the student may dismiss all such unworthy suspicions from his mind. It is of the first importance that the examinee should enter the examination room with the comfortable conviction that, whether he passes or fails, he will be justly and even generously dealt with. He will do far better work under this conviction, and this is a feeling which he may confidently entertain with reference to the examinations of all bodies of recognized standing.

Having entered the examination room, therefore, in a proper frame of mind, the author would advise the candidate to read through the *whole paper* carefully.

Some candidates answer the questions in the order in which they are set without reading through the paper as a whole, or making any attempt to roughly apportion the time allotted to them amongst the questions set. It is far wiser for the candidate to intelligently read the whole paper through, selecting the one or two questions about which he feels most confident, and answering them as a commencement of his task. When the candidate has dealt with a few questions the answers to which he knows are more or less correct, he will feel much more confident, and will then be able to tackle the longer and more difficult questions with a far greater likelihood of success. It is particularly important that candidates of nervous temperament should ensure the measure of *equanimity* which is gained by the feeling that, at any rate, a few well answered questions stand to their credit before they embark upon the longer problems set them.

(In the case of those questions where certain closing adjustments, outside the Trial Balance, are necessary before completing the preparation of the Profit and Loss Account and Balance Sheet, it is, in the author's opinion, a wise plan to draft the closing adjustments *in the form of Journal entries*, ticking them off one by one as they are passed into the accounts.) In a large percentage of cases

where the examination candidate fails to "balance" his accounts the error arises through some careless slip or omission in dealing with one entry only of some adjustment he is asked to make. Disconcerting mistakes of this nature will become impossible if the course suggested above is carefully carried out.

In examination Exercise II on page 613, for example, the necessary adjustments would be journalized as follows—

JOURNAL

	£	s.	d.	£	s.	d.
Depreciation Account.....Dr.	2,808	10	0			
To Sundries—						
Machinery and Plant Account.....				2,186	0	0
Building Account				667	10	0
For Depreciation for the year ended						
Dec. 31, 1907, at 6 per cent. and 3 per						
cent. respectively.						
Profit and Loss Account.....Dr.	2,808	10	0			
To Depreciation Account.....				2,808	10	0
For Transfer of the Balance of this						
account.						
Stock Account.....Dr.	28,700	0	0			
To Trading Account.....				28,700	0	0
For the Stock on hand as on Dec. 31,						
1907, as per valuation.						
* Profit and Loss Account.....Dr.	25	0	0			
To Reserve for Bad and Doubtful						
Debts				25	0	0
Being the additional amount required						
in order to carry forward a Reserve of						
5 per cent. upon the outstanding						
Sundry Debtor Balances as on Dec.						
31, 1907 (£52,500).						
Profit and Loss Account.....Dr.	500	0	0			
To Patents Account				500	0	0
For amount written off this account						
during the year.						
Profit and Loss Account.....Dr.	500	0	0			
To Sundry Creditors (Directors' Fees)				500	0	0
For fees due to the Directors for the						
year ended Dec. 31, 1907, as per						
Articles of Association.						
Insurance Paid in Advance.....Dr.	90	0	0			
To Insurance Account.....				90	0	0
For the value of Unexpired Insurance						
Premiums carried forward to next						
year.						
Profit and Loss Account.....Dr.	1,826	8	0			
To Managing Director.....				1,826	8	0
For 10 per cent. commission upon the						
Net Profits for the year ended Dec. 31,						
1907, as per Agreement.						
Profit and Loss Account.....Dr.	2,500	0	0			
To Reserve Account.....				2,500	0	0
Being the amount added to the fund						
during the year ended Dec. 31, 1907.						

These Journal entries have been set out above just as they would appear in the Company's books, but they may be curtailed by the candidate, for the present purposes, to such entries as will ensure the safe arrival of each item at its correct destination in the accounts he is preparing. Each item should be carefully marked off when dealt with. If these precautions are followed, errors in the final "balance," from this source, are thus completely avoided.

If the candidate has no certain knowledge of any question set he will be well advised to leave it alone altogether. The practice of "having a shot" at questions, although popular amongst some candidates, is fraught with great danger, and is not unlikely to prejudice the remainder of the paper.

Candidates should endeavour to arrange their answers methodically. Let the data you supply the examiner with be "edited" as far as possible with suitable underlined headings; especially is method of this description desirable when answering questions which contain one or more points. To take a simple example—

Question.—What is your opinion with reference to the employment of "Loose Leaf Ledgers"?

Answer.—ADVANTAGES may be claimed for "Loose Leaf Ledgers" under several headings—

1. Accounts that are "dead" may be eliminated from the Ledger.
 2. The pages of an account that have been "settled" may be removed and filed elsewhere so that the bulk of the Ledger may be kept within reasonable limits.
- Etc., etc.

DISADVANTAGES also exist in connection with this system in that—

1. Pages of an account when once removed may be lost.
 2. Unless care is exercised in the issue of fresh pages fraud may be covered by the substitution of pages containing altered figures.
- Etc., etc.

Method of this description is more likely to cover all the points raised by the questions set than the methodless and disconnected answers so often sent in by examinees.

When answering questions, candidates should endeavour

to strike the happy medium between verbiage and the opposite extreme of cryptic brevity affected by some students. Answers should be full, in the sense that they should deal efficiently, but concisely, with all the points covered by the question set. The verbose candidate goes much further than this. He is apparently of opinion that however little the examiner wants, the ~~wants that little long.~~ Accordingly, he proceeds to drag in a manner of irrelevant matter, thereby wasting his own time and that of the examiner.

On the other hand, all candidates will be aware, of course, that a mere "yes" or "no" carries no marks upon examination. The candidate must furnish some reasonable evidence to the examiner that his answer is based upon real knowledge, and is not merely the result of a fortunate guess.

In book-keeping, as in almost every other subject, there are points of treatment in which experts differ. In answering questions of this type the candidate should avoid dogmatism. In dealing with questions upon which strongly opposed views are held, it is wiser to state briefly the contentions of the differing schools of opinion, stating plainly your own personal views, and giving reasons, without violence, for the faith that is in you. Whatever the particular views held by the examiner may be, if you justify your answer with moderate and sensible argument, your claim for a fair share of the marks carried by the question will be sure to be recognized.

Many questions contain two or more points of equal importance with which the candidate is asked to deal. It is a matter of experience, however, that, in the case of questions of this type, there are always a number of examinees who lose marks by neglecting to deal with both or all the points raised by the question before them. This failing is often due to careless forgetfulness and lack of method. A second reading of the question before the candidate passes on to his next answer would discover the omission, and, occupying but little time, would frequently save many marks which would otherwise be lost. Obviously the examiner cannot give marks for work which is not sent in, however certain he may feel that the omission is due to mere carelessness.

Another point to which it would be thought there would be no necessity to refer, is the fact that some examinees place too literal an interpretation upon some

phrase or word employed by the examiner, without pausing to consider its context in the question. This again, doubtless, is often a phase of carelessness, for the false issues raised are frequently so ridiculous that a very brief re-consideration of the question should have avoided the loss of time and marks entailed. Any one who has undertaken examination work will freely admit that it is a most difficult task to frame an examination question so that the desired meaning shall be clear to all. If some other interpretation be evolvable by any stretch of imagination, however daring, some candidate is sure to be present who is equal to the task.

For example, the author once asked, in a book-keeping examination, for a definition of the term "Royalty." One candidate replied that "Royalty was anything appertaining to the Royal Family"! The dictionary would probably support this view. But one would hardly have thought that a candidate, in a book-keeping examination of some difficulty, would place such an interpretation upon the term.

The illustration is, of course, an extreme one; but it suffices to emphasize the warning that, in many cases, marks are lost owing to the too literal interpretation of some word, or phrase, without due regard to its contextual position or to the examiner's probable meaning.

If the candidate finds that he can place two different and reasonable interpretations upon any item in a question set, he will be wise to use the item in the sense of the most probable of its interpretations, and to append a clear and concise note to his accounts stating that there is also the other possible interpretation which, if adopted, would have been dealt with in such and such a manner, briefly showing how the accounts would have been affected.

There are other candidates, unfortunately far too numerous, who, although evidently possessing a good knowledge of book-keeping, spoil their chances of distinction by making stupid arithmetical errors, often in the simplest of calculations. Errors of this nature may not fail a candidate who showed otherwise a good knowledge of the subject, but they must obviously handicap him in obtaining class distinction. It is well worth the short time occupied in making sure that the arithmetical calculations necessary in working out questions have been correctly made before passing them into the accounts you are asked to prepare.

When the candidate has answered all the questions he can, he will be well advised not to hand in his paper at once, and hurry out of the examination room, as so many candidates do. However good the paper may be, there is sure to be some weakness which can be remedied upon a careful revision. Neatly rule up and bring down the balances of the Ledger accounts. Red ink the Profit and Loss Account and Balance Sheet, and re-write any answers or parts of answers the wording of which can be made clearer or more concise.

The last few minutes of an examination spent in careful revision, in this way, may make all the difference to the place which the examinee may ultimately secure upon the pass lists. Experience shows, especially in a large examination, that the leading candidates are remarkably near to each other, as often as not a mark or two only separating them. The final revision of the paper, therefore, may prove of vast importance to the candidate's success.

To sum up briefly these few suggestions, the author would again emphasize the fact that, in his opinion, many of the detrimental weaknesses by which examination candidates are handicapped may be largely overcome if they will train themselves—

Firstly, to acquire method in preparation, or, in other words, a methodical "habit of study."

Secondly, to acquire method in marshalling and expressing knowledge possessed when dealing with actual examination questions.

If the student will work studiously and honestly upon these lines for a period suitable to his individual requirements, examinations need have no terrors for him. He may rest assured that he will be justly and fairly dealt with by his examiners, if he has dealt justly and fairly with himself, and the work he has undertaken. Let him also remember always that, to be successful, the accountant and book-keeper must continually remain earnest students. Even the youngest amongst us is on the road to success when he fully realizes how little he knows.

CHAPTER XXVII

HOW TO ANSWER EXAMINATION PAPERS

EXAMINATION EXERCISE I ✓

The following exercise was set at a well-known examination—

John Druce, a cycle dealer, had, on December 31, 1907, the following Assets—

	£	s.	d.
Cash at Bank	300	0	0
„ in hand	25	0	0
Stock	650	0	0
Furniture and fittings	120	0	0
Bills Receivable :			
A. Graves, due Jan. 9, 1908	75	0	0
B. Walters, due Jan. 10, 1908	125	0	0
Owing by :			
A. Brown	25	0	0
J. Smith	45	0	0
A. Graves	20	0	0
B. Walters	10	0	0
M. Robinson	105	0	0
	<u>£1,500</u>	<u>0</u>	<u>0</u>

His liabilities on the same date were—

	£	s.	d.
Due to H. Sweeting	150	0	0
„ „ A. Fisher	75	0	0
Bills Payable :			
S. Unwin, due Jan. 6, 1908	90	0	0
F. Lord, due Jan. 8, 1908	85	0	0
	<u>£400</u>	<u>0</u>	<u>0</u>

John Druce agreed to take M. Robinson into partnership conditionally upon the amount owing by him to John Druce on December 31, 1907, being paid at once; and upon his bringing into the business, in cash, the same amount of capital as was standing to the credit of John Druce's Capital Account at this date; one-half of this latter amount was to be paid out in cash, by way of premium, to John Druce and was to appear in the books of the partnership as Goodwill. These conditions were duly carried out as on January 1, 1908.

You are required to make the necessary entries recording the above, and to pass through the proper books the following transactions—

1908.

- Jan. 1. Bought of H. Sweeting 1 dozen bicycle frames at 15s. each.
 „ 1. Ditto, for cash. 4 dozen wooden crates at 3s. each.
 „ 2. Sold A. Brown 3 bicycles at £7 10s. each, one of which was returned on January 3.
 „ 3. J. Smith paid his account, deducting £2 for bicycle damaged in transit.
 „ 3. Sold B. Walters 2 bicycles at £8 8s. each, charging him with 2 crates at 3s. 6d. each.
 „ 3. Bought of A. Fisher 6 pairs of wheels at 30s. a pair and a job lot of accessories for £5.
 „ 4. Paid office salaries and wages, drawing and cashing a Cheque for same, £6 10s.
 „ 4. Each partner drew out in cash £3 on private account.
 „ 6. Paid A. Fisher by Cheque £25 on account.
 „ 6. Bill payable (S. Unwin), due this day, paid by Bank.
 „ 6. Sold J. Smith one bicycle for £7 10s. upon which he paid £2 on account.
 „ 7. Bought for cash two second-hand bicycles at 15s. each, one of which was sold for cash the same day for 25s., which 25s. was paid direct into the Bank.
 „ 7. Cashed Cheque for £10 for petty cash purposes.
 „ 8. Bill payable (F. Lord), due this day, paid by Bank.
 „ 8. B. Walters paid the balance of his account as on this day, deducting 5 per cent. discount, which was disallowed.
 „ 9. Bill receivable given by A. Graves returned dishonoured: a new bill at one month being given for the whole of his account.
 „ 9. Sold to B. Walters 20 brakes at 2s. each and 6 lamps at 5s. each.
 „ 9. Bought of F. Lord 5 dozen lamps at 3s. each.
 „ 10. Bill Receivable (B. Walters) duly met.
 „ 10. Sold A. Graves a second-hand bicycle for 30s.
 „ 11. Paid office salaries and wages, drawing and cashing Cheque for £6.
 „ 11. Each partner drew in cash £3 for private purposes.
 „ 11. A. Brown accepted a bill at 3 months drawn upon him for the balance owing by him at this date.

All moneys received were paid at once into the Bank. Balance the Ledger accounts as on January 11, 1908, bring down the balances and extract a Trial Balance.

N.B.—No Profit and Loss Account or Balance Sheet to be prepared.

In order to open John Druce's books, and before considering how M. Robinson's admission as a partner may affect the position, it is necessary to incorporate in the books (which after Robinson's admission will become the books of the firm), the financial position of John Druce as on December 31, 1907.

Upon reviewing the question before us, it will be seen that John Druce's Assets total up to £1,500, and that his liabilities amount to £400, his "capital," as at December 31, 1907, is consequently £1,100.

A Journal entry to record these facts is accordingly first put through the books, debiting to their respective Ledger accounts all the Assets held, and crediting to their respective accounts all the Liabilities outstanding. The Journal entry, as will be noted, is made to agree by the inclusion of John Druce's Capital, £1,100, this being the sum which represents the difference between his Assets and Liabilities as on December 31, 1907.

The books having been opened by means of these entries, it becomes possible to deal with the arrangement arrived at between John Druce (the previous owner of the business) and M. Robinson (the incoming partner).

The proposal is as follows—

- (1) That M. Robinson shall at once pay the £105 due from him.
- (2) That he shall bring into the business, in cash, as his capital, a sum equal in amount to the capital standing to the credit of John Druce as on December 31, 1907, viz. £1,100.
- (3) That of this £1,100 one-half (£550) shall be permitted to be withdrawn by John Druce as a payment to him by the new firm by way of "premium" (*i. e.* as the purchase price) for the goodwill of the business. On admitting a new partner upon equal terms with himself, John Druce becomes the owner of only one-half of the goodwill of the business and half the profits, instead of, as heretofore, possessing both business and profits entirely, it is thus only just and fair that he should demand from the new firm and the incoming partner something by way of compensation for this concession on his part.

It is stated in the question, that this arrangement was duly carried out, and, as a necessary consequence, the following transactions must be recorded—

- (1) *M. Robinson paid into the Bank of the new firm the £105 due from him.*
- (2) *M. Robinson paid into the Bank £1,100 as his capital.*
- (3) *J. Druce withdrew from the Bank £550 as the agreed purchase price to the new firm (consisting of himself and M. Robinson) of the Goodwill.*

For transaction No. (1) the necessary entry is—

Debit the Bank Account with £105, because the Bank has received the money, and *credit* M. Robinson because he has paid that amount. It is, of course, M. Robinson's old current account as an ordinary *debtor* in the Ledger which must be credited in this instance, and not the Capital Account to be subsequently opened in his name, which will be referred to hereafter.

For transaction No. (2) the entry is—

Debit the Bank Account with £1,100 because it has received the money, and *Credit* M. Robinson (Capital) Account because it is "M. Robinson" who has paid the money, and because it is in order to furnish his "Capital" in the new business that he has paid in the £1,100.

For transaction No. (3) the entry is—

Credit the Bank Account with £550 because £550 has been withdrawn from this account, and *Debit* the "Goodwill" Account with £550 because in exchange for this sum an asset, viz. the Goodwill, valued at £550, has been acquired by the new firm.

The remaining transactions set out in the question, and the manner of their treatment in the books, are set out hereunder—

Jan. 1. Bought of H. Sweeting 1 doz. bicycle frames at 15s. each (£9).

Debit "Purchases" (in the Purchases Book for subsequent entry to the debit of the Purchases Account in the Ledger) because goods to the value of £9 have been acquired, and *Credit* H. Sweeting because he has parted with goods to that amount.

Jan. 1. Bought for cash 4 doz. wooden crates at 3s. each (£7 4s.).

Credit "Cash" with £7 4s: because that amount of cash has gone out of the business, and *Debit* the "Purchases" Account, because goods of that value have come into the business.

Jan. 2. Sold A. Brown 3 bicycles at £7 10s. each, one of which was returned on January 3.

Debit A. Brown with the cost of 3 bicycles at £7 10s. each (£22 10s.) because he has received them from the

business, and *Credit* the "Sales" Account (*via* the Sales Book) because bicycles of that value have been parted with by the business. For the bicycle which was returned on January 3 an entry for £7 10s. must be passed through the books as though the returned bicycle represented a repurchase from A. Brown.

The second entry consequently is—

Debit "Returns Inwards" (in the "Returns Inwards Book" for subsequent posting to the debit of the "Returns Inwards Account" in the Ledger) for the goods returned because they have come back into the business and have been put into stock again, and *Credit* A. Brown with £7 10s., representing the value of the bicycle returned by him.

Jan. 3. J. Smith paid his account (£45), deducting £2 for bicycle damaged in transit.

For the £43 thus paid by J. Smith—

Debit the Cash Book with £43, since the money has been received, and *Credit* J. Smith with £43 because he has paid that sum.

To record the £2 allowance made to J. Smith—

Debit "Allowances" Account with £2 because money has been lost in this direction, and *Credit* J. Smith with £2 because the allowance to him is the equivalent of a cash payment received from him, which would, of course, have been placed to his credit. This latter entry passes through the Journal proper, there being no other book of original entry in which it can be appropriately recorded.

Jan. 3. Sold B. Walters 2 bicycles at £8 8s. each, charging him with 2 crates at 3s. 6d. each.

This transaction must be treated as a sale to B. Walters of bicycles and crates, no difference in treatment being made between the bicycles and the crates which contained them.

The necessary entry is therefore—

Credit "Sales" (through the Sales Book) with £16 16s. for the bicycles sold and with 7s. for the accompanying crates, all these articles having been parted with, and *Debit* B. Walters with their value because he has received them.

Jan. 3. Bought of A. Fisher 6 pairs of wheels at 30s. per pair, and a job lot of accessories for £5.

Debit "Purchases" Account (*via* the Purchases Book)

with the cost of the wheels (£9) and of the accessories (£5), because these goods have come into the business, and *Credit* A. Fisher because he has supplied the firm with them.

Jan. 4. Paid office salaries and wages, drawing and cashing a Cheque for same (£6 10s.).

This transaction is in fact twofold, as follows—

- (1) £6 10s. has been withdrawn from the Bank for Office cash purposes.
- (2) Out of the Office cash £6 10s. has been paid away in salaries and wages.

For transaction No. (1) the following entry is necessary—

Credit the “Bank” column in the Cash Book, representing the withdrawal of the £6 10s. from the Bank, and *Debit* the “Cash” column in the Cash Book, in order to record the receipt of the money by the Cashier.

For transaction No. (2)—

Credit the “Cash” column in the Cash Book, representing the fact that £6 10s. has gone out of the Cashier’s hands, and *Debit* “Office Salaries” and “Wages” Accounts, in order to record the fact that the money has been used in these directions.

Jan. 4. Each partner drew out in cash £3 on private account.

It is better to debit sums thus withdrawn for private purposes by the partners in a firm, at the time of their occurrence, to separate “Drawing Accounts” kept for each partner; these Drawing Accounts can, at any desired date, be closed by the transfer of the total withdrawals to date to the debit of the respective Capital Accounts of the members of the firm.

It is moreover a wise precaution for the entry of withdrawals for private purposes to bear the initials of the partner concerned against the item as and where it appears in the Cash Book.

The necessary entries therefore are—

Credit the “Cash” column in the Cash Book with two sums of £3, representing the fact that £6 in money has been paid out, and *Debit* “J. Druce, Drawing Account” and “M. Robinson, Drawing Account” with £3 in each case because it is to the partners that the money in question has been paid.

Jan. 6. Paid A. Fisher £25 by Cheque on account.

Credit the "Bank" column in the Cash Book with £25 because that sum has been withdrawn from the Bank, and *Debit* A. Fisher with £25 because he has received the money.

Jan. 6. Bill Payable (S. Unwin) due this day paid by Bank (£90).

Credit the "Bank" column in the Cash Book with £90 because this sum has been parted with, and post the item to the *Debit* of the "Bills Payable" Account in the Ledger because the holder, for the time being, of this Bill Payable has received the money.

Jan. 6. Sold J. Smith 1 bicycle for £7 10s., upon which he paid £2 on account.

This, again, is not a single transaction for book-keeping purposes, but two, viz. (a) the sale of a bicycle for £7 10s. to J. Smith, and (b) the receipt of £2 in cash from J. Smith.

To record the sale to J. Smith an entry is made in the Sales Book, *crediting* "Sales" with £7 10s. because goods to that value have been parted with, J. Smith being at the same time *debited* in his Ledger account with £7 10s. because he has received the bicycle.

In order to record the receipt of the £2 on account the "Cash" column in the Cash Book is *debited*, because the money has been received, and, to complete the entry, J. Smith's Ledger account is *credited* with the like amount because it is John Smith who has paid the money into the business.

Jan. 7. Bought for cash 2 second-hand bicycles at 15s. each, one of which was sold for cash on the same day for 25s.

This is an example of a "Cash" purchase (2 bicycles at 15s. each) followed by a "Cash" sale (1 bicycle at 25s.), the two transactions being separate and distinct.

In order to record the purchase for cash of 2 bicycles for 30s.—

Credit the "Cash" column in the Cash Book because 30s. in cash has been parted with, and *Debit* the "Purchases" Account in the Ledger because goods to that value have been received.

It will be remembered that, in actual practice, "Cash sales" and "Cash purchases" do not pass through the

"Sales" or "Purchases" Journals, these books being reserved for transactions upon credit. If numerous, such Cash sales and purchases are either recorded in special books kept for that purpose, the totals of which are periodically carried into the Cash Book, or they are accommodated in columns specially provided for them in the Cash Book itself; the totals of which are posted monthly to the Ledger.

In order to record the sale for cash of one bicycle for 25s. the entry is—

Debit the "Bank" column in the Cash Book with 25s. because that sum in cash has been received, and *Credit* the "Sales" Account in the Ledger because goods have been parted with to that amount.

Jan. 7. Cashd Cheque for £10 for Petty Cash purposes.

This transaction consists of the withdrawal of £10 from the Bank and the placing of it in the Office Cash to be used for Petty Cash disbursements.

The necessary entry is consequently—

Credit the "Bank" column in the Cash Book with £10, representing the withdrawal of the money from the Bank, and *Debit* the "Cash" column in the Cash Book with the same sum, because the Cashier has received the money.

Jan. 8. Bill Payable (F. Lord) due this day paid by Bank (£85).

Credit the "Bank" column in the Cash Book because the Bank has parted with £85, and *Debit* the "Bills Payable" Account in the Ledger because the holder of the Bill Payable, whoever he may be, has received the money.

Jan. 8. B. Walters paid the balance of his account as at this day, deducting 5 per cent. discount, which was disallowed.

B. Walters owes the firm, as shown by his Ledger account, £27 3s., and, doubtless thinking that Messrs. Druce & Robinson would allow it, he has deducted 5 per cent. from this sum (£1 7s. 2d.), and has remitted a Cheque for the balance, viz. £25 15s. 10d. Messrs. Druce & Robinson, however, are not disposed to allow this deduction, and the attempt on the part of B. Walters to obtain an unfair discount consequently falls to the ground. All that Messrs. Druce & Robinson do under these circumstances is to record the receipt of B. Walters's

Cheque for £25 15s. 10d. as a "payment on account," leaving the balance still owing standing to B. Walters's debit, doubtless at the same time informing him of this fact.

The entry consequently is—

Debit the "Bank" column in the Cash Book with £25 15s. 10d. because the Bank has received the money, and *Credit* B. Walters's Ledger account with a like amount because he has paid the money to Messrs. Druce & Robinson.

Jan. 9. Bill Receivable given by A. Graves returned dishonoured, a new bill at one month being given for the whole of his account.

The bill first referred to above is for £75, and in addition to this A. Graves owes a further £20, being the balance due from him on his Ledger account.

The above transaction is, as regards its book-keeping record, a triple one, and consists of the following separate transactions—

- (a) The Bill Receivable for £75 held by Druce & Robinson is assumed to have been handed by them in the ordinary course to their Bankers for collection, and for eventual credit to their account.
- (b) Upon presentation of the bill by the Bank to A. Graves, payment of it is refused.
- (c) Messrs. Druce & Robinson presumably at once refer to Mr. Graves, who offers them a fresh bill for the whole amount due from him, *i. e.*
 - (a) to cover the dishonoured bill (£75) and (b) the balance of his current account (£20), or £95 in all.

These transactions are recorded as under—

- (a) Upon the bill for £75 being paid into the Bank for collection an entry is passed through debiting the bill to the Bank, in anticipation of its being duly collected.

The entry is therefore—

Debit the "Bank" column in the Cash Book with £75 because the Bank is assumed to have received the money (although in strict practice the assumption may subsequently prove to be incorrect), and *Credit* the "Bills Receivable" Account with a like amount because a Bill Receivable of this value has been parted with.

- (b) Upon the bill for £75 being returned dishonoured Messrs. Druce & Robinson have immediate recourse for the amount against the acceptor, A. Graves, who becomes their debtor for the cash which should have been paid upon presentation of the bill.

It is consequently necessary to place the £75 to the debit of A. Graves's Ledger account, at the same time the previous debit to the Bank must be reversed, *i. e.* an adjusting entry must be made in the "Bank" column in the Cash Book upon the opposite side to that upon which the previous entry of £75 was recorded, *viz.* upon the credit side.

The necessary entry is consequently—

Debit A. Graves with £75 because he has become the firm's debtor for the amount of his dishonoured acceptance, and *Credit* the "Bank" column in the Cash Book with £75 in order to reverse the previous debit entry in the Bank Account.

- (c) A fresh acceptance for £95 is received from A. Graves, due a month after the dishonour of the previous bill.

The entry for this acceptance follows the ordinary lines, applicable in the case of a Bill Receivable being given to the firm. The "Bills Receivable" Account is *debited* and the person (A. Graves) from whom the bill has been received is *credited* with its value just as though he had paid the sum in cash.

The "Bills Receivable" Account is consequently *debited* (in this case through the Journal) with £95 because a Bill Receivable for this amount has been acquired, and A. Graves is *credited* with the like sum because he has given the bill in discharge of his indebtedness.

Jan. 9. Sold to B. Walters 20 brakes at 2s. each and 6 lamps at 5s. each (£3 10s. in all).

Credit "Sales" (in the Sales Book for subsequent posting to the credit of the Sales Account) with £3 10s., being the value of the goods parted with by the firm, and *Debit* B. Walters with the same sum because he has received the goods.

Jan. 9. Bought of F. Lord 6 dozen lamps at 3s. each (£10 16s).

Debit "Purchases" (in the Purchases Book for subsequent posting to the debit of the Purchases Account) with £10 16s. because goods to this amount have come into the business, and *Credit* F. Lord with the same sum because he has parted with the goods.

Jan. 10. Bill Receivable (B. Walters) duly met (£125).

This bill will have been paid into the Bank in due course for collection upon Messrs. Druce & Robinson's behalf, and for their credit in current account, and is duly paid upon presentation.

The necessary entry consequently is—

Debit the "Bank" column in the Cash Book with £125 because the Bank has received, firstly the bill, and subsequently the money for it, and *Credit* the "Bills Receivable" Account with the same sum because, firstly, a Bill Receivable held has been parted with, and, secondly, because £125 has been paid by the acceptor of the bill.

Jan. 10. Sold A. Graves a second-hand bicycle for 30s.

Credit "Sales" (through the Sales Book for subsequent posting to Credit of the Sales Account) with 30s., because goods to this value have been parted with, and *Debit* A. Graves with the like sum because he has received the bicycle.

Jan. 11. Paid Office salaries and wages, drawing and cashing Cheque for £6.

This transaction, for book-keeping purposes, must be regarded as twofold, and as comprising the following separate transactions, viz.—

- (1) The withdrawal of £6 from the Bank and the deposit in the Office Cash of the money obtained by cashing the Cheque so drawn.
- (2) The payment of £6 for salaries and wages by the Cashier.

Entry No. 1 is recorded as under—

Credit the "Bank" column in the Cash Book with £6 because the Bank has parted with the money, and *Debit* the "Cash" column in the Cash Book with the like sum because the Cashier has received the money.

Entry No. 2 is recorded as under—

Credit the "Cash" column in the Cash Book with £6 because the Cashier has disbursed the money, and *Debit* the "Salaries and Wages" Account with £6 because this amount has been paid in salaries and wages.

Jan. 11. Each partner drew in cash £3 for private purposes.

This entry is the exact counterpart of that passed through the books on January 4.

The entry therefore is—

Credit the "Cash" column in the Cash Book with two sums of £3, representing the fact that £6 in money has been disbursed by the Cashier, and *Debit* "J. Druce, Drawing Account" and "M. Robinson, Drawing Account" respectively with £3 because this sum has been paid to each partner.

Jan. 11. A. Brown accepted a bill at 3 months drawn upon him for the balance owing by him at this date.

The balance owing by A. Brown at this date amounts to £40, and for this sum a bill is drawn upon him by Messrs. Druce & Robinson. A. Brown signifies his promise to pay this bill at its due date by writing his name across it, *i. e.* by "accepting it." The bill thus "accepted" is returned by A. Brown to Messrs. Druce & Robinson and consequently becomes one of their "Bills Receivable."

The necessary entry therefore is—

Debit the "Bills Receivable" Account (by means of a Journal entry) with £40 because a bill for this amount has been acquired by Messrs. Druce & Robinson, and *Credit* A. Brown with £40 because he has parted with a bill for this sum.

All the detailed transactions set out in the question having thus been passed through the books it remains to complete the requisite Double Entry in the case of the "Sales," "Purchases," and "Returns Inwards" by adding up the totals of these respective Journals or Day Books, and by posting them to their appropriate Ledger accounts. Following upon this procedure the balances can be brought down upon all the open accounts in the Ledger, and upon the Cash Book, and a "Trial Balance" (*i. e.* a list of all the balances appearing in the Ledger and the Cash Book) can then be prepared. The total of the

"Debit" balances shown in the Trial Balance should, if the work has been correctly done, agree with the total of the "Credit" balances appearing in the same statement.

The first step towards the completion of the books is the addition of the "Sales," "Purchases" and "Returns" Books and the posting of their respective totals in their appropriate Ledger accounts.

It will be seen that the "Purchases" Book adds up to £33 16s., the "Sales" Book to £52 3s., and that the "Returns Inwards" Book contains but a single item, viz. £7 10s.

These additions having been duly effected, the following postings are then made in the Ledger, viz.—

(1) The total of the "Purchases" (£33 16s.) for the period is posted to the *Debit* of the "Purchases" Account. It will be remembered that all the purchases made on credit and recorded in this book have already been posted in detail to the *Credit* of the various persons from whom the goods were bought (*e.g.* the 1 doz. frames bought on January 1 from H. Sweeting, £9, were posted to the *Credit* of H. Sweeting's account because he had disposed of the goods), and the *Debit* posting, to complete the Double Entry, is now effected *in total* in the "Purchases" Account, because goods to this total value have been acquired during the period.

(2) In similar manner the total of the "Sales" (£52 3s.) for the period is posted to the *Credit* of the "Sales" Account. This single "total" posting represents the fact that goods to the amount stated have "gone out" of the business, *i.e.* have been disposed of, and completes the double entry for all the sales upon credit previously posted in detail to the *Debit* of the various persons to whom they have been dispatched.

(3) The £7 10s. appearing in the "Returns Inwards" Book is posted to the *Debit* of the "Returns Inwards Account" in the Ledger; this is done because the goods in question have "come in," and have been added again to the general stock of the business; the corresponding *Credit* posting in A. Brown's account was effected on January 2, and recorded the fact that the goods had been received from him.

The next process to be effected is the ruling off and "balancing" of the Cash Book and of all the Ledger accounts. It will be sufficient, for present purposes, to explain the method by which the Cash Book is "balanced,"

and to indicate thereafter that the same process is applied to all the accounts in the Ledger.

The totals appearing on the *Debit* side of the Cash Book at the close of the transactions previously enumerated are, as set out on that side of the Cash Book, as under—

TOTAL OF "CASH" DEBIT COLUMN.	TOTAL OF "BANK" DEBIT COLUMN.
£47 10s. 0d.	£1,777 0s. 10d.

These totals would, in actual practice, be temporarily inserted in their respective columns *in pencil*.

The corresponding totals appearing on the *Credit* side of the Cash Book are—

TOTAL OF "CASH" CREDIT COLUMN.	TOTAL OF "BANK" CREDIT COLUMN.
£33 4s. 0d.	£847 10s. 10d.

These totals again would, in practice, be inserted temporarily in their respective columns *in pencil*.

The differences or "balances" between the respective totals of the columns are consequently as under (the total of the "*Credit*" Cash column being deducted from the total of the "*Debit*" Cash column, and the same process being carried out in the case of the "Bank" columns).

"BALANCE" OF "CASH" COLUMNS.	"BALANCE" OF "BANK" COLUMNS.
£14 6s. 0d.	£929 10s. 10d.

These "balances" are inserted in the "Cash" and "Bank" credit columns respectively, under the designation of "Balances carried down" (they represent, in the one case, the amount of cash remaining in the Cashier's hands and, in the other, the amount of money left in the hands of the Bankers at the close of all the above-stated transactions); the two "Cash" columns and the two "Bank" columns are then added up and the totals, which, by means of the insertion of the balances, have been made to equal one another as regards each pair of columns, are now inked in.

The "Cash" columns are thus both of them arranged to add up to £47 10s., and the "Bank" columns to £1,777 0s. 10d., and the account is completed by the ruling of transverse lines across the columns in the customary way as shown in the Cash Book given hereafter by way of illustration.

The "balances" previously mentioned are now re-

entered on the opposite side to that upon which they have already been included, and *below* the "ruling off," i.e. *below* the transverse lines already ruled across the money columns.

These balances represent the amounts of Cash in hand and at the Bank at the close of the transactions for the period recorded, and form the balances of the respective accounts which are now ready for inclusion in the Trial Balance. They also constitute the starting balances for the next trading period.

These two balances are then entered in the Trial Balance, according to the side of the Cash Book (in this case the Debit side) upon which they are *brought down*.

Every other Ledger account is treated in similar manner, subject to the following rules—

(1) That in the case of those accounts where the total debit postings exceed the total credit postings the balance "carried down" is necessarily entered on the *Credit* side of the Ledger account, in order to make the sides agree, and the balance "brought down" is entered on the *Debit* side both in the Ledger account and in the Trial Balance.

(2) That in the case of those accounts where the total credit postings exceed the total debit postings the balance "carried down" appears on the *Debit* side, and the balance "brought down" appears on the *Credit* side both in the Ledger account and in the Trial Balance.

(3) That in the case of those accounts wherein the total debit postings exactly equal the total credit postings, all that needs to be done is the addition of both sides, followed by the "ruling off" of the account. There is, in these cases, of course, no balance to enter in the Trial Balance.

The Trial Balance thus constructed, simultaneously with the ruling off of all the accounts, is set out on page 613, and it will be found to "agree" or "balance"; in other words, both the debit and credit columns in this statement add up to £2,487 4s., and an inference as to the probable correctness of the book-keeping consequently arises.

At the close of the specimen examination question which has been dealt with in detail above, a conspicuous note is appended to the effect that "*No Profit and Loss Account or Balance Sheet is to be prepared.*" It would seem to be unnecessary to recommend students to pay explicit attention to definite directions of this character,

Dr.

CASH BOOK

Cr.

Date.		Cash.	Bank.	Date.		Cash.	Bank.					
£	s.	d.	£	s.	d.	£	s.	d.				
1908.				1908.								
Jan. 1	To Balances in hand	25	0	0	Jan. 1	By Cheque, J. Druce, 20						
" 1	" Cash, M. Robinson's Capital Account.....		800	0	" 1	" Goodwill.....		550	0	0		
" 1	" Cash, M. Robinson's Current Account.....		1,100	0	" 1	" Purchases, 4 doz. crates at 3s.....	7	4	0			
" 3	" J. Smith, on Account.....		105	0	" 4	" Cheque for Wages.....						
" 6	" J. Smith, on Account.....		43	0	" 4	" Office Salaries and Wages	6	10	0	6	10	0
" 6	" Cheque cashed.....		2	0	" 4	" J. Druce, Drawing Account.....	3	0	0			
" 7	" Cash Sale, 1 second-hand bicycle.....	6	10	0	" 4	" M. Robinson, Drawing Account.....	3	0	0			
" 7	" Bank.....		1	5	" 4	" A. Fisher, cheque on Account.....	3	0	0			
" 9	" B. Walters.....		25	15	" 6	" Account.....				25	0	0
" 9	" A. Graves, Bill to Bank.....		75	0	" 6	" Bill Payable (Unwin).....				90	0	0
" 10	" B. Walters, Bill.....		125	0	" 7	" Purchases, 2 second-hand bicycles.....	1	10	0			
" 11	" Bank.....	6	0	0	" 7	" Petty Cash.....				10	0	0
					" 8	" Bill Payable (Lord).....				85	0	0
					" 8	" Bill Dishonoured (A. Graves).....				75	0	0
					" 11	" Cheque for Petty Cash.....	6	0	0	6	0	0
					" 11	" Office Salaries & Wages.....	3	0	0			
					" 11	" J. Druce, Drawing Account.....	3	0	0			
					" 11	" M. Robinson, Drawing Account.....	14	6	0			
					" 11	" Balances carried down.....				929	10	10
1908.						£47	10	0	£1,777	0	10	
Jan. 11	To Balances brought down	14	6	0	✓							

HOW TO ANSWER EXAMINATION PAPERS 607

and yet it is the fact that many students *do* (in spite of such notes) append one or other, or both, of the accounts which are clearly stated as not being required, and for which, therefore, it is obvious that no marks can be awarded. In this manner the examinee frequently wastes valuable time through sheer carelessness.

SALES BOOK

1908.			£	s.	d.	£	s.	d.
Jan. 2	A. Brown, 3 bicycles-at £7 10s.....	4				22	10	0
" 3	B. Walters, 2 bicycles at £8 8s.....		16	16	0			
	2 crates at 8s. 6d.....	7		7	0			
" 6	J. Smith, 1 bicycle.....	5				17	3	0
" 9	B. Walters, 20 brakes at 2s.....					7	10	0
	6 lamps at 5s.....	7	1	10	0			
" 10	A. Graves, second-hand bicycle.....					8	10	0
	Total credited to Ledger account.....	15				1	10	0
						£52	3	0

PURCHASES BOOK

1908.			£	s.	d.	£	s.	d.
Jan. 1	H. Sweeting, 1 doz. frames at 15s.....	9				9	0	0
" 3	A. Fisher, 6 pairs wheels at 30s.....		9	0	0			
	Accessories	10	5	0	0	14	0	0
" 9	F. Lord, 6 doz. lamps at 3s. each.....	11				10	16	0
	Total debited to Ledger account	14				£33	16	0

RETURNS INWARDS BOOK

1908.			£	s.	d.	£	s.	d.
Jan. 2	A. Brown, 1 bicycle.....	4				7	10	0
	Total debited to Ledger account	10				£7	10	0

JOURNAL

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
1908.	Sundries: Dr.						
Jan. 1	To Sundries, viz.—						
	Cash at Bank..... C.	800	0	0			
	Cash in hand..... C.	25	0	0			
	Stock..... 1	650	0	0			
	Furniture and Fittings..... 2	120	0	0			
	Bills Receivable..... 3	200	0	0			
	A. Brown..... 4	25	0	0			
	J. Smith..... 5	45	0	0			
	A. Graves..... 6	20	0	0			
	B. Walters..... 7	10	0	0			
	M. Robinson..... 8	105	0	0			
	H. Sweeting..... 9				150	0	0
	A. Fisher..... 10				75	0	0
	Bills Payable..... 11				175	0	0
	John Druce, Capital Account..... 21				1,100	0	0
	For Assets, Liabilities, and Capital, as at this date	£1,500	0	0	£1,500	0	0
Jan. 3	Allowances Account Dr. To J. Smith for Allowance re Bicycle damaged in transit ..	2	0	0			
" 9	Bills Receivable..... Dr. To A. Graves, for acceptance received.....	95	0	0	2	0	0
" 11	Bills Receivable..... Dr. To A. Brown for acceptance received ..	40	0	0	95	0	0
		40	0	0			
		£137	0	0	£187	0	0

LEDGER

1 Dr.		Stock Account			1 Cr.		
		£	s.	d.			
1908.							
Jan. 1	To Balance J.	650	0	0			
		£ 650	0	0			

2 Dr.		Furniture and Fittings Account			2 Cr.		
		£	s.	d.			
1908.							
Jan. 1	To Balance J.	120	0	0			
		£ 120	0	0			

HOW TO ANSWER EXAMINATION PAPERS 609

3 Bills Receivable				3			
Dr.				Cr.			
1908.		£	s. d.	1908.		£	s. d.
Jan. 1	To Balance—			Jan. 9	By Cash	C.	75 0 0
	A. Graves... J.	75	0 0	10	„ Cash	C.	125 0 0
	B. Walters... J.	125	0 0	11	„ Balance carried down	✓	135 0 0
„ 9	„ A. Graves,						
	Bill dishonoured... J.	95	0 0				
„ 11	„ A. Brown ... J.	40	0 0				
		£	335 0 0			£	335 0 0
1908.							
Jan. 11	To Balance brought down	✓	135 0 0				

4 A. Brown				4			
Dr.				Cr.			
1908.		£	s. d.	1908.		£	s. d.
Jan. 1	To Balance	J.	25 0 0	Jan. 2	By Returns.....	R.	7 10 0
„ 2	„ Goods.....	S.	22 10 0	„ 11	„ Bills Receivable.....	J.	40 0 0
		£	47 10 0			£	47 10 0

5 J. Smith				5			
Dr.				Cr.			
1908.		£	s. d.	1908.		£	s. d.
Jan. 1	To Balance.....	J.	45 0 0	Jan. 3	By Cheque.....	C.	43 0 0
„ 6	„ Goods.....	S.	7 10 0	„ 6	„ Cash	C.	2 0 0
		£	52 10 0	„ 6	„ Allowance..	J.	2 0 0
1908.				„ 11	„ Balance carried down..	✓	5 10 0
Jan. 11	To Balance brought down.....	✓	5 10 0			£	52 10 0

6 A. Graves				6			
Dr.				Cr.			
1908.		£	s. d.	1908.		£	s. d.
Jan. 1	To Balance.....	J.	20 0 0	Jan. 9	By Bill Receivable....	J.	95 0 0
„ 8	„ Bill dishonoured..	C.	75 0 0	„ 11	„ Balance carried down..	✓	1 10 0
„ 10	„ Goods.....	S.	1 10 0			£	96 10 0
		£	96 10 0				
1908.							
Jan. 11	To Balance brought down.....	✓	1 10 0				

7		B. Walters										7					
Dr.					Cr.												
1908.					£	s.	d.	1908.					£	s.	d.		
Jan.	1	To Balance.....	J.	10	0	0	Jan.	8	By Cheque.....	C.	25	15	10				
"	3	" Goods.....	S.	17	3	0	"	11	" Balance carried down..	✓	4	17	2				
"	9	" Goods.....	S.	3	10	0					£	30	13	0			
					£	30	13	0						£	30	13	0
1908.																	
Jan.	11	To Balance brought down.....	✓	4	17	2											

8		M. Robinson										8			
Dr.												Cr.			
1908.				£	s.	d.	1908.				£	s.	d.		
Jan. 1	To Balance.....	J.	105	0	0		Jan. 1	By Cash.....	C.	105	0	0			
				£	105	0	0					£	105	0	0

9		H. Sweeting										9			
Dr.														Cr.	
1908.				£	s.	d.	1908.				£	s.	d.		
Jan. 11	To Balance	✓	159	0	0	Jan. 1	By Balance....	J.	150	0	0				
	carried down..					" 1	" Goods.	P.	9	0	0				
			£	159	0	0			£	159	0	0			
								1908.							
								Jan. 11	By Balance	✓	159	0	0		
								brought down							

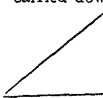
10			A. Fisher										10		
Dr.													Cr.		
1908.				£	s.	d.	1908.				£	s.	d.		
Jan. 6	To Cheque.....	C.	25	0	0	Jan. 1	By Balance.....	J.	75	0	0				
" 11	" Balance					" 3	" Goods	P.	14	0	0				
	carried down..	✓	64	0	0										
			£	89	0	0			£	89	0	0			
			1908.												
						Jan. 11	By Balance								
							brought down	✓	64	0	0				

11		F. Lord										11
Dr.					Cr.							
					1908.							
					Jan. 9	By Goods.....	P.	10	16	0		
									£	10	16	0

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12				Bills Payable				12				
Dr.								Cr.				
1908.			£	s.	d.	1908.			£	s.	d.	
Jan. 6	To Cheque.....	C.	90	0	0	Jan. 1	By Balance—	J.	90	0	0	
„ 8	„ Cheque.....	C.	85	0	0		S. Unwin...	J.	85	0	0	
							F. Lord.....	J.				
			£	175	0	0			£	175	0	0

13				Wages and Salaries				13						
Dr.								Cr.						
1908.				£	s.	d.	1908.				£	s.	d.	
Jan. 4	To Cash.....	C.		6	10	0	Jan. 11	By Balance			12	10	0	
" 11	" Cash	C.		6	0	0		carried down	✓		12	10	0	
				£	12	10					£	12	10	0
1908.														
Jan. 11	To Balance			12	10	0								
	brought down	✓		12	10	0								

14				Purchases Account				14			
Dr.								Cr.			
1908.			£	s.	d.	1908.			£	s.	d.
Jan. 4	To Cash.....	C.	7	4	0	Jan. 11	By Balance		42	10	0
" 7	" Cash.....	C.	1	10	0		carried down.	✓			
" 11	" Sundry purchases on credit, as per Purchases Book	P.	33	16	0						
			42	10	0						
			£	42	10			0			
1908.											
Jan. 11	To Balance brought down	✓	42	10	0						

15		Sales Account				15				
Dr.						Cr.				
1908.		£	s.	d.	1908.	£	s.	d.		
Jan. 11	To Balance carried down..... ✓	53	8	0	Jan. 7	By Cash sale.... C.	1	5	0	
					" 11	" Sundry Sales on credit as per Sales Book..... S.	52	3	0	
		£	53	8	0		£	53	8	0
					1908.					
					Jan. 11	By Balance brought down ✓	53	8	0	

16		Returns Inwards		16	
Dr.				Cr.	
1908.		£	s. d.		
Jan. 11	To Sundry returns as per Returns Inwards Book.	R.	7 10 0		
		£	7 10 0		

17 Dr.				J. Druce, Drawing Account				17 Cr.				
1908.			£	s.	d.	1908.			£	s.	d.	
Jan. 4	To Cash	C.	3	0	0	Jan. 11	By Balance					
„ 11	„ Cash	C.	3	0	0		carried down	✓	6	0	0	
			£	6	0	0			£	6	0	0
1908.												
Jan. 11	To Balance											
	brought down	✓	6	0	0							

18		M. Robinson, Drawing Account				18						
Dr.						Cr.						
1908.			£	s.	d.	1908.		£	s.	d.		
Jan. 4	To Cash	C.	3	0	0	Jan. 11	By Balance					
" 11	" Cash	C.	3	0	0		carried down	✓	6	0	0	
			£	6	0				£	6	0	0
1908.												
Jan. 11	To Balance											
	brought down	✓	6	0	0							

19		Allowances Account		19	
Dr.				Cr.	
1908.		£	s. d.		
Jan. 3	To J. Smith ...	J.	2 0 0		
		£	2 0 0		

20		Goodwill Account		20	
Dr.				Cr.	
1908.		£	s. d.		
Jan. 1	To Cash (J. Druce).....	C.	550 0 0		
		£	550 0 0		

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21		J. Druce, Capital Account										21
Dr.												Cr.
					1908.					£	s.	d.
					Jan. 1	By Balance ...	J.	1,100	0	0		
								£	1,100	0	0	

22		M. Robinson, Capital Account										22
Dr.												Cr.
					1908.					£	s.	d.
					Jan. 1	By Cash	C.	1,100	0	0		
								£	1,100	0	0	

TRIAL BALANCE, January 11, 1908

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
M. Robinson, Capital Account.....				1,100	0	0
J. Druce, Capital Account.....				1,100	0	0
M. Robinson, Drawing Account.....	6	0	0			
J. Druce, Drawing Account.....	6	0	0			
Goodwill Account.....	550	0	0			
Sales Account.....				53	8	0
Allowances Account.....	2	0	0			
Returns Inwards Account.....	7	10	0			
Purchases Account.....	42	10	0			
Wages and Salaries.....	12	10	0			
Stock Account.....	650	0	0			
Furniture and Fittings Account.....	120	0	0			
Bills Receivable.....	135	0	0			
Sundry Debtors—						
J. Smith.....	5	10	0			
A. Graves.....	1	10	0			
B. Walters.....	4	17	2			
Sundry Creditors—						
H. Sweeting.....				159	0	0
A. Fisher.....				64	0	0
F. Lord.....				10	16	0
Cash in hand.....	14	6	0			
Cash at Bank.....	920	10	10			
	£2,487	4	0	£2,487	4	0

EXAMINATION EXERCISE II

(1) From the following Trial Balance of the accounts of a Manufacturing Company (whose authorized Capital consists of 15,000 Ordinary Shares of £10 each) prepare a Trading Account and a Profit and Loss Account for the year ending December 31, 1907, and a Balance Sheet as on that date

	£	s.	d.	£	s.	d.
(2) Capital issued and fully paid up, 9,000 shares of £10 each.				90,000	0	0
(3) Stock (January 1, 1907)	32,000	0	0			
(4) Cash in hand	150	0	0			
(5) Cash at Bank	2,900	0	0			
(6) Purchases	52,350	0	0			
(7) Sales				136,500	0	0
(8) Do. Returns	400	0	0			
(9) Purchases Returns				750	0	0
(10) Manufacturing Charges	11,500	0	0			
(11) Manufacturing Wages	28,550	0	0			
(12) Salaries	1,500	0	0			
(13) Trade Expenses	6,850	0	0			
(14) Rates and Taxes	250	0	0			
(15) Insurance	190	0	0			
(16) General Expenses	2,640	0	0			
(17) Discounts (balance)	1,800	0	0			
(18) Bad Debts	570	0	0			
(19) Interest and Bank Charges	350	0	0			
(20) Land and Buildings	22,250	0	0			
(21) Machinery and Plant	35,600	0	0			
(22) Sundry Debtors	52,500	0	0			
(23) Sundry Creditors				21,750	0	0
(24) Patents	5,000	0	0			
(25) Bad Debts Reserve (January 1, 1907)				2,600	0	0
(26) Profit and Loss (balance, Decem- ber 31, 1906)				750	0	0
(27) Reserve				5,000	0	0
	<u>£257,350</u>	<u>0</u>	<u>0</u>	<u>£257,350</u>	<u>0</u>	<u>0</u>

(28) Charge Depreciation on Land and Buildings Account at 3 per cent. per annum, and (29) on Machinery and Plant Account at 6 per cent.; (30) make a reserve of 5 per cent. on the Sundry Debtors for Bad Debts; (31) write down Patents Account by 10 per cent.; (32) carry forward £90 of Insurance; and (33) charge £500 as Directors' Fees; (34) the value of the Stock as on December 31, 1907, was agreed at £23,700; (35) charge 10 per cent. on net profits as remuneration to the Managing Director; and (36) appropriate £2,500 to the Reserve Account, carrying forward the balance.

The next exercise to be worked is set out above. It was given at a well-known examination, and illustrates a type which is to be found in almost every book-keeping examination paper, except those of a very elementary character. That this type of question should frequently occur is not surprising, in view of the fact that it reproduces a problem of everyday occurrence in accountancy practice.

A Trial Balance, already extracted and agreed, is given, from which the candidate is required to prepare a Trading

Account, a Profit and Loss Account, and a Balance Sheet, and, in the construction of these accounts, he is required to embody the various adjustments set out in a note at the foot of the Trial Balance.

It may be remarked, in passing, that some candidates when confronted with this type of question frequently spoil their otherwise correct solutions by omitting one or more of the provisions or adjustments set forth at the foot of the Trial Balance in order that they may be included in the final accounts which the student is asked to prepare. The student will be wise, therefore, in every case to read through with the utmost care the *whole* of such a problem as set in an examination paper, paying special attention to any notes appearing at the foot of it, and carefully ticking off the necessary adjustments as and when dealt with.

As indicated in Chapter XXVI, the candidate will be wise, in the author's opinion, to journalize these adjustments, in order to ensure their correct appearance subsequently in the accounts required by the terms of the question.

The various "balances" set out in the above Trial Balance, for the sake of convenience of subsequent description and reference, have been numbered consecutively in the example illustrated, as also have all the other material particulars included in the question. Such numbering does not, of course, appear in a printed examination paper. In answering a question of this type, the various balances and items have, of course, to be extracted for the purpose of being inserted in the candidate's solution successively, although not necessarily in the order set out in the question; it is, therefore, a wise precaution for a candidate to "tick," run through with his pen, or otherwise mark on the printed examination paper supplied to him, each item or balance as he makes use of it in constructing his answer; such a process renders the accidental omission of any material item much less probable.

Having carefully perused the question placed before him for solution, the candidate is in a position to commence his answer. The first account asked for, and the account therefore to be first attempted, is the Trading Account, the principles of the construction of which have already been explained in the first part of Chapter IX.

The candidate must bear in mind the usual form in

which a Trading Account is presented, and it is, as a rule, more convenient to commence its preparation with the items appearing upon the Debit side.

It must be remembered that a Trading Account is a statement showing the results for the *whole* of the financial period under review. The account required in the example before us must thus be headed "Trading Account for the year ended December 31, 1907." It will also be remembered that only one item in the Trading Account, viz. the opening stock of goods on hand, is included in that account under the date of the first day of the trading period (January 1, 1907), and that all the other items in the account, being either the totals of various classes of transactions for the whole period (*e.g.* sales) or the Stock on hand at the close of the period, bear the date of the last day of the period (December 31, 1907).

The first item to be inserted in the Trading Account is the Stock of Goods on hand at the commencement of the trading period.

Item No. 3.

"Stock, January 1, 1907 . . . £32,000."

This item in the Trial Balance represents the stock of goods owned by the Manufacturing Company at the commencement of the period under review, and must be placed in the Trading Account at the head of the Debit side of the account with the date, January 1, 1907, annexed. The item is debited to the Trading Account for the year because the business has, during that period, had the use of the stock which was left over from the previous trading period, and has doubtless, during the year, disposed of the greater part of it.

Items Nos. 6 and 9.

The next items to be brought into the account are Items 6 and 9, as under—

"Purchases	£52,350."
"Purchases Returns	£750."

Nature of the items.—These balances are of the following significance, viz. the item "Purchases, £52,350," represents the fact that the Company has, during the year 1907, purchased goods to this amount. The Company whose accounts are in course of preparation is a manufacturing concern, and the total in question con-

sequently represents the cost of commodities purchased in a raw condition, to be subsequently worked up into saleable articles.

Destination.—The balance under consideration must consequently be included in the Debit side of the Trading Account, as the business has had the use of the goods. But for the fact that some of the articles included in the total have been returned to the vendors, the amount would be inserted direct in the principal Debit column of the Account. Seeing, however, in view of Item No. 9, that “returns” have taken place, the item is placed in the “short” Debit column, where the effect of the Returns made is also dealt with in due course.

Item No. 9.

“Purchases Returns £750.”

Nature of the item.—This item represents the total value of the goods bought, and subsequently returned to the persons from whom they were received; the total is, of course, included in the total “Purchases,” since, from a book-keeping standpoint, Purchases and Purchases Returned are kept in separate accounts.

Destination.—Inasmuch as the Purchases thus returned to the respective vendors (£750) are included in the total Purchases (£52,350), and the latter total is to that extent overstated, the overstatement of the Purchases must be corrected prior to the insertion of the latter amount in the Trading Account.

As has already been stated, the Purchases (£52,350) must be entered on the Debit side of the Trading Account, and the Purchases Returns (£750) could, if so desired, be included on the Credit side of the account. It is, however, desirable that the Purchases for the period should appear at their true net figure free from the inflating effect of any Returns that have subsequently been made, and the modern practice, therefore, is to place the Purchases Returns in the Trading Account upon the *Debit* side in the “short” column, immediately underneath the Purchases themselves, which, as explained above, are also entered “short.” The Purchases Returns are then *deducted* from the Purchases, and a net figure of Purchases (in this case £51,600) is obtained for extension into the principal Debit cash column of the account.

It is convenient at this stage to consider items Nos. 7

and 8, as their method of treatment is to a certain extent analogous to the above, viz.—

"Sales	£136,500."
"Sales Returns	£400."

Item No. 7.

"Sales	£136,500."
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Nature of the item.—This figure represents the total value of the manufactured goods sold during the period; i. e. the total of the goods parted with, whether for cash or upon credit.

Destination.—The item must be included on the Credit side of the Trading Account, as the goods have been parted with by the business. In manner analogous to the "Purchases" total, it is entered in the "short" column in order that the Returns made ("Sales Returns, £400," as mentioned below) may be deducted from it for the purpose of obtaining a net figure of Sales for the trading period free from the inflating effect of any Returns.

Item No. 8.

"Sales Returns	£400."
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Nature of the item.—This figure represents the total of the goods sold (included in sales) which have been subsequently returned to the Company by the respective persons to whom they were originally sent.

Destination.—The item must be entered in the Trading Account upon the *Credit* side as a *deduction* from the Sales; the net figure of Sales thus arrived at (£136,100) is extended into the principal Credit cash column of the Trading Account, and represents the actual volume of the Sales for the trading period.

So far, as has already been indicated, the items (opening stock, purchases and sales) entered in the Trading Account are such as appear in the Trading Account of every business, whether the business concerned deals in goods manufactured by other parties and purchased from them for re-sale, or whether the undertaking in question be the original manufacturer of the goods it sells.

The Company under review in the question before us is, however, a manufacturing one; and it will be remembered that, in the Trading Account of such an undertaking, all expenses and charges which are directly involved in the production of a finished article in a saleable condition have to be charged, in company with

the cost of the raw materials bought, in the Trading Account, and not in the Profit and Loss Account, in order that a reliable figure of gross profit may be arrived at. All expenses connected with the *selling* of the goods, when manufactured and ready for sale, are chargeable to the Profit and Loss Account; as between the expense of producing goods in a condition ready for sale and the expense of selling such goods, a line of demarcation has to be drawn, and the effects of the distinction so decided upon must be embodied in the accounts.

The two following items (Nos. 10 and 11) are expenses of manufacture, and are therefore brought into the Trading Account, viz.—

"Manufacturing wages . . .	£28,550."
"Manufacturing charges . . .	£11,500."

Item No. 10.

" <i>Manufacturing Wages</i> . . .	£28,550."
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Nature of the item.—This item represents the cost of the labour expended in working up the raw materials purchased into finished goods; without such labour the finished articles could not have been produced in a condition ready for sale, and the cost of the necessary labour is consequently a proper charge against the selling price obtained for the goods.

Destination.—The item must thus be debited in the Trading Account, as an addition to the cost of the raw materials (Purchases) already included there.

Item No. 11.

" <i>Manufacturing Charges</i> . . .	£11,500."
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Nature of the item.—This amount represents the total of the further expenditure (beyond the cost of raw materials and wages) which has been necessary in order to produce finished articles in a condition ready for sale.

Destination.—It is consequently necessary to enter the item in question on the Debit side of the Trading Account, as an addition to the cost of the raw materials and the cost of labour already included.

All "Trading Account" items appearing in the Trial Balance have now been brought into the Account, and it remains to consider the question of the Stock in hand at the end of the period; the Trading Account must be given Credit for the amount of this item prior to ascertaining the amount of the "gross profit" for the period.

Item No. 34, mentioned in the notes annexed to the Trial Balance, sets forth the fact that the stock at December 31, 1907, was agreed at £23,700.

Item No. 34.

"Stock, December 31, 1907 . £23,700."

Nature of the item.—This item represents the value of the stock of goods (consisting, doubtless, partly of raw materials and partly of goods in various stages of manufacture) held at the close of the period.

Destination.—The item must be included in the Trading Account on the Credit side, in order that the Gross Profit made may be arrived at. The reason for this proceeding is that the period under review has borne all the cost of purchasing or producing these goods, and therefore takes credit for their value when they are handed on to the next trading period. The Stock on hand will also, at a later stage in the solution of the example, require to be brought, as an Asset, into the Balance Sheet which has to be prepared under date, December 31, 1907.

All Trading Account items have now been entered in the Trading Account, with the exception of the Balance or "Gross Profit," and it remains to ascertain the amount of the latter. When this has been done the Account is closed by means of a transfer of the balance of the Account (Gross Profit or Gross Loss as the case may be) to the Profit and Loss Account.

The items placed in the Trading Account on the Debit side total up to £123,650, and those inserted on the Credit side amount to £159,800; the difference between these sums (£36,150) represents the "Gross Profit" derived from the trading operations during the period and is inserted in the account on the Debit side in order to make the two sides agree. Both sides of the Trading Account will then amount to £159,800.

The Gross Profit is next entered in the Profit and Loss Account upon the Credit side, and forms the first entry in this account, and represents the sum available against which to charge the remaining expenses. In the example given above it forms the only entry on the Credit side of the Account, there being no other "profit" balances to be included.

The next step in the preparation of the Profit and Loss Account is the transfer to this Account of the various

"Expense" and "Loss" balances appearing in the Trial Balance.

The following items are of a similar nature, and may be conveniently grouped in their explanation—

Item No. 12.	"Salaries"	£1,500."
„ 13.	"Trade Expenses"	£6,850."
„ 14.	"Rates and Taxes"	£250."
„ 16.	"General Expenses"	£2,640."
„ 17.	"Discount Account (balance)."	£1,800."
„ 18.	"Bad Debts"	£570."
„ 19.	"Interest and Bank Charges"	£350."

These items are all of the nature of "Losses" or "Expenses" arising out of the operation of effecting Sales of the finished goods, and consequently, in each case, they require to be set off against the Gross Profit derived from the sale of the goods; in other words, their *destination* is the Debit side of the Profit and Loss Account as a charge against profits.

Taking the items separately, as regards their nature, "Salaries, £1,500," represents the total amount paid to the counting-house staff, travellers and other employees engaged in selling the company's goods. A distinction is here drawn between "Manufacturing Wages," which form part of the cost of *producing* the finished article, and "Salaries," which are charges incurred in the process of *selling* such article.

"Trade Expenses, £6,850."—This item doubtless represents the hundred and one small forms of miscellaneous expenditure necessary in any large business undertaking (*e. g.* Boxes, Gratuities, Packing expenses, String, Cleaning, Catalogues, Postages, Telegrams, etc.).

"Rates and Taxes, £250."—This item represents money spent in discharging the local rates, etc., levied upon the premises in which the business of the Company is carried on, and the various forms of governmental taxes, *e. g.* land tax, etc.

"General Expenses, £2,640."—This item represents a further aggregate of miscellaneous "loss" and expenditure (*e. g.* Repairs, Travelling expenses, Stable expenses, Lighting expenses, Advertising, Exhibition expenses, Audit fee, etc.).

"Discount Account (balance), £1,800."—This item represents the balance of the Discount Account, *i. e.* the difference between the total discounts allowed and the

total discounts received, the total discounts "allowed being, in this case, the greater of the two classes. The balance of the account therefore forms a charge against the profits for the period.

"*Bad Debts, £570.*"—This item represents the total amount of the debts written off as absolutely "bad," *i. e.* irrecoverable; it must be distinguished from the "Reserve for Bad Debts" mentioned in the footnote, and dealt with later in the Profit and Loss Account; the former item represents actual debts definitely ascertained to be bad, and requiring to be written off, while the latter charge represents an estimated provision considered to be necessary for debts which, though doubtful, have not yet reached the point at which it is necessary to write them off the books.

"*Interest and Bank Charges, £350.*"—This item represents the total Interest paid to the various persons from whom money has been borrowed throughout the year, and the charges (doubtless including also some interest) paid to the bank.

Item No. 15.

"*Insurance . . . £190.*"

This item requires special treatment. Footnote No. 32 states "carry forward £90 of Insurance." This instruction arises out of the fact that £190 has been paid during the year for insurance premiums, of which only £100 has, at the date of balancing, run off, leaving therefore a balance of £90, representing insurance prepaid at the end of the year, which balance requires to be carried forward as a charge against the profits of the ensuing year. As on December 31, 1907, this £90 prepaid insurance ranks as an Asset because it is a prepayment from which the succeeding period will derive benefit.

Of the £190 debit balance, therefore, appearing in the Trial Balance as Insurance, £100 requires to be debited in the current Profit and Loss Account, while the balance of £90 must be included as an Asset in the Balance Sheet to be subsequently prepared.

The above "Losses" having been inserted in the Profit and Loss Account, it remains to embody in this Account the effect of the various adjustments and provisions which are called for in the note at the foot of the Trial Balance.

The first adjustments to be referred to are Nos. 28 and

29, wherein the charging of depreciation on Land and Buildings Account (balance, £22,250) at 3 per cent. per annum, and on Machinery and Plant Account (balance, £35,600) at 6 per cent. per annum is directed.

Items Nos. 28 and 29.

Nature of the allowances.—Since the Land and Buildings and Plant and Machinery have been employed during the year for the purposes of the business, it is to be presumed that the former two items have become, by reason of use and “wear and tear,” of less value, although it may be said, in passing, that land is not usually depreciated when preparing accounts if it be freehold. The Buildings have, in this case, evidently become of less value owing perhaps to the effects of the atmosphere or other causes upon the structure. In almost every business Plant and Machinery become steadily of less value as they are used, and the rate of wastage (“depreciation”) in their case is much greater than in the case of more lasting properties such as Land and Buildings. In the question before us this characteristic difference is exemplified in the higher rate chargeable in the case of Plant and Machinery (6 per cent.) as compared with that provided in the case of Land and Buildings (3 per cent.).

The allowances indicated will be found to amount to the following sums—

Land and Buildings, 3 per cent. per annum for one year on £22,250 = £667 10s.

Plant and Machinery, 6 per cent. per annum for one year on £35,600 = £2,136 0s.

Destination of the items.—The Profit and Loss Account is debited with both these allowances, representing, as they do, the estimated wastages, through use, of the respective Assets, whilst employed in assisting to make the Gross Profit set out on the Credit side of the account.

The “Land and Buildings” Account in the Ledger would, if shown, be credited with £667 10s., and the “Plant and Machinery” Account would similarly be credited with £2,136; these two accounts, however, are not shown in the candidate’s answer, as they are not required by the question. The effect of the depreciation allowances made is therefore brought into account when preparing the Balance Sheet subsequently, by deducting them from their respective asset figures. In other words, “Land and Buildings” standing in the Trial Balance at

£22,250 are taken into the Balance Sheet at £21,582 10s. (*i.e.* £22,250 minus £667 10s.), and "Plant and Machinery" are included at £33,464 (*viz.* £35,600 minus £2,136).

Item No. 31.

Note No. 31 directs that "Patents" Account shall be written down by 10 per cent. Patents Account stands at £5,000 in the Trial Balance, and the necessary provision of 10 per cent. amounts, therefore, to £500.

Nature of the item.—"Patents Account, £5,000," represents the value of patent rights owned by the Company. Grants of "Letters Patent" confer the exclusive privilege of manufacturing certain inventions; and, as letters patent are only conferred by law for a limited number of years from the date of the grant, the value of any capital expended in purchasing a patent becomes steadily less as the years pass by. It is therefore necessary to reduce the book value of patents every year by writing off a certain sum, representing, as far as possible, the wastage in the "life" of the patent.

Destination of the item.—The Profit and Loss Account is debited with £500, representing the shrinkage in the value of the patent rights owing to effluxion of time; and this charge, to some extent, resembles the depreciation allowances on Land, Buildings, Plant and Machinery previously explained.

The £500 depreciation written off Patents Account is, when subsequently preparing the Balance Sheet, deducted from the £5,000 balance of this account (see Trial Balance), and "Patents" are, therefore, valued in the Balance Sheet at £4,500 (*i.e.* £5,000 minus £500).

Item No. 30.

Item No. 30 directs that a "reserve of 5 per cent. upon the Sundry Debtors (£52,500)" shall be raised.

Nature of the item.—As was explained in Chapter IX a Reserve of this nature is usually created at the end of a trading period in order to cover unascertained losses which may arise owing to the probability that some of the existing debtors will fail to fulfil their obligations.

A Reserve of this nature is expressed most frequently as a fixed percentage of the total book debts outstanding at a given date, as is the case in this particular instance.

Method of arriving at the requisite amount.—The "Sundry Debtors" amount to £52,500, 5 per cent. upon which amounts to £2,625. It is not, however, necessary to

set aside the whole of this £2,625 out of current profits, because *Item No. 25* ("Bad Debts Reserve, January 1, 1907, £2,600") clearly indicates that a Reserve for Bad and Doubtful Debts already exists in the books, to the extent of the £2,600 named, this sum having been set aside out of previous years' profits.

It is, therefore, only the difference between the Reserve brought forward (£2,600) and the Reserve to be carried forward (£2,625) which requires to be debited to the current Profit and Loss Account as an addition to the existing Reserve.

By thus increasing the existing Reserve to £2,625 there will then be a Reserve amounting to 5 per cent. on the Sundry Debtors standing in the books as directed by the terms of the question.

Destination of the item.—The Profit and Loss Account is debited with £25, representing the additional Reserve to be set aside out of current profits, and a corresponding addition of £25 is made to the existing Bad Debts Reserve of £2,600 as set out in the Trial Balance. The Bad Debts Reserve, as on December 31, 1907, is thus raised to £2,625. If it were necessary to give the Bad Debts Reserve Account in the candidate's answer, the £25 would be shown as a credit entry immediately under, and as an addition to, the pre-existing Reserve of £2,600; as, however, under the terms of the question we are considering, it is not necessary to show this account, the candidate must make an addition to the Bad Debts Reserve Account when transferring it to the Balance Sheet, and must thus include the Bad Debts Reserve at £2,625 when deducting the Reserve from the total of the Sundry Debtors on the Assets side of the Balance Sheet.

Item No. 33.

directs that £500 is to be charged as "Directors' Fees" due at the end of the period.

Nature of the item.—The item represents the fees due and unpaid at the end of the period, arising out of the services rendered by the Directors of the Company during the year.

These fees are consequently a charge against the profits for the period as representing remuneration due for services rendered to the Company; and, as the amount is still unpaid, the Directors need to be shown in the Balance Sheet, to be subsequently prepared, as creditors for the amount of the fees due to them.

Destination of the item.—The Profit and Loss Account is debited with £500 under the designation "Directors' Fees"; while, in preparing the Balance Sheet, £500 is set out as a liability under the heading "Sundry Creditors" (Directors' Fees).

Items Nos. 36 and 35.

Apart from the commission of 10 per cent. on the profits due to the Managing Director, and the £2,500 appropriation to Reserve Account, as directed to be made in footnotes 35 and 36, all the items which required to be entered in the Profit and Loss Account have now been included. The two items above are "appropriations" of the profits made, rather than charges against profits or expenses incurred, in carrying on the business, and thus they should not be included in the Profit and Loss Account proper, but in an "Appropriation" Account at the foot of the Profit and Loss Account. This Appropriation Account is, as its name implies, an account in which the profit made is "appropriated" or divided out, as opposed to an account wherein the details of the amount of the profit which has been made are shown.

It is now possible to close the Profit and Loss Account by inserting an amount on the Debit side sufficient to make the two sides tally. This amount, or "balance," will represent, in the case under review, the **Net Profit** made during the year 1907.

The expenses set forth on the debit side of the Profit and Loss Account add up to £17,888 10s., whereas the Gross Profit (the only item) set out on the credit side of the account amounts to £36,150. The difference between these two sums, £18,261 10s., represents the Net Profit for the period, and is inserted on the *debit* side of the Profit and Loss Account in order to make the two sides agree.

This amount, representing the Net Profit for the year ended December 31, 1907, is at once carried down to the credit side of the Appropriation Account.

Item No. 26.

The "Balance of Profit and Loss Account, as on December 30, 1906 (£750)," represents the undistributed balance of profit brought forward from the previous year, and this item requires to be placed in the Appropriation Account on the credit side, and must be added to the profits made during 1907. The total thus obtained forms

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the amount at the credit of the current Profit and Loss Account, and shows the balance now available for distribution.

The Credit side of the Appropriation Account therefore consists of the following items, viz.—

	£	s.	d.
1907.			
December 31. Balance brought down, being profit for the year			
1907	18,261	10	0
1906.			
December 31. Balance of profit brought forward from 1906	750	0	0
	<u>£19,011</u>	<u>10</u>	<u>0</u>

Items Nos. 35 and 36.

It now remains to consider these two directions, viz. (35) "to charge 10 per cent. on the profits as remuneration to the Managing Director," and (36) "to appropriate £2,500 to the Reserve Account."

Both these items are, as has already been indicated, appropriations of profit made, as opposed to expenses chargeable against profits; they must therefore appear in the Appropriation section of the Profit and Loss Account.

Item No. 35. "Charge 10 per cent. on the profits as remuneration to the Managing Director."

Nature of the item.—The Managing Director is, in the example given, presumably under the terms of his agreement, remunerated in part by a share of the profits earned by the business under his direction. Such an arrangement is a very frequent one, and naturally operates as an incentive to the Managing Director to endeavour to make the undertaking as successful as possible.

The remuneration given to the Managing Director is, of course, based upon the profit for the year 1907, and not, in addition, upon the balance brought forward from the previous year, upon which he has probably already been paid the percentage due to him; the amount now payable to the Managing Director is consequently 10 per cent. upon £18,261 10s., viz. £1,826 3s.

Destination.—This £1,826 3s. must be debited in the Appropriation Account as representing the portion of the profits for the year which is payable to the Managing Director under his agreement, and if the Personal Ledger

Account of the Managing Director were to be shown, this sum would be inserted therein to his credit. This Account is not, however, needed by the terms of the question, and it is therefore necessary for the candidate to bear in mind, when preparing the Balance Sheet, the fact that the commission is unpaid, and that, therefore, the Managing Director needs to be scheduled as a creditor for the amount of his commission under the heading "Sundry Creditors" (Managing Director's Commission), as was the case with the Directors' outstanding Fees dealt with above.

Item No. 36. "To appropriate £2,500 to Reserve, carrying forward the balance."

Nature of the item.—The Directors of the Company have evidently decided to retain £2,500 of the profits made during 1907 permanently in the business, by means of the transfer of this amount to the pre-existing Reserve of £5,000.

This Reserve Account is obviously a general reserve, and is not represented by any specific securities or by any investments effected outside the business. It is practically a specialized balance of Profit and Loss Account, and nothing more; this type of Reserve is known as one which is "invested in the business."

Destination of the item.—The £2,500 is debited to the Appropriation Account, and, if the "Reserve Account" in the Ledger were shown, this £2,500 would appear as an additional credit; but, as this account is not to be given, the candidate must, when preparing his Balance Sheet, add £2,500 to the pre-existing Reserve (£5,000), thus raising the amount of that account to £7,500.

The Reserve Account will thus be shown in the Balance Sheet as under—

<i>Reserve Account.</i>	£	s.	d.
As per last Balance Sheet	5,000	0	0
Added during the year.	2,500	0	0
	<hr/> £7,500 0 0		

The Managing Director's commission and the transfer to the Reserve Account having thus been debited in the Appropriation Account, the balance of this account (£14,685 7s.) is carried down on the credit side. This balance remains for inclusion in the Balance Sheet, as in the accompanying illustration (page 638).

The Trading, Profit and Loss, and Appropriation Accounts having thus been completed, the candidate must next turn his attention to the preparation of the Balance Sheet.

As was explained in Chapter X, the student must adopt some reasonable and recognized order in which to marshal the Assets and Liabilities appearing in any Balance Sheet prepared by him. For the purposes of the question now before us we will adopt that form of Balance Sheet in which the Assets are marshalled in the order of their "non-realizability."

Starting with the "Liabilities" side of the Balance Sheet, the item which should be placed at the head of this column is one which does not appear in the Trial Balance, and does not require to be extended into the principal money column of the Balance Sheet, viz. the "Authorized" or "Nominal" Capital of the Company.

Item No. 1.

Item No. 1 in the note at the head of the Trial Balance records the fact that the "Authorized Capital of the Company consists of 15,000 Ordinary Shares of £10 each."

This statement of fact, although it does not in any way represent the balance of an account, is shown as a matter of information, in the Balance Sheet, on the Liabilities side as under—

<i>Nominal Capital.</i>	£	s.	d.
15,000 Ordinary Shares of £10			
each	150,000	0	0

The figures are entered in the "short" cash column, and are not extended into the principal column. A pair of lines are ruled beneath the item to denote that it forms no part of the additions of the figures composing the Balance Sheet.

In completing the Liabilities side of the Balance Sheet (*i. e.* the Debit side), it will be remembered that Liabilities which in the Trial Balance appear on the *Credit* side, are—in the compilation of a Balance Sheet prepared according to the general practice ruling in this country—entered on the *Debit* side. Similarly, Assets (which are *Debit* balances in the Trial Balance) appear on the right-hand, or *Credit* side, of the Balance Sheet.

Item No. 2.

Item No. 2 in the Trial Balance is as under—

"Capital issued and fully paid up,	£	s.	d.
9,000 shares of £10 each .	90,000	0	0."

Nature of the item.—This item represents the issued Capital of the Company, *i.e.* the amount contributed, in cash or in kind, by the shareholders of the Company.

Destination.—The item must be included on the left-hand side of the Balance Sheet as a Liability. The business having received this money from the shareholders is regarded as responsible to them for it. It must, however, be borne in mind by the student that, in reality, it is only from a book-keeping standpoint that the Capital of the Company ranks as a Liability, and that shareholders cannot claim repayment of their contributions as a matter of right, except in the case of a liquidation or a general repayment of Capital under the sanction of the Courts. They can, of course, sell their shares to other parties.

The item is included under the heading "Capital issued," the "9,000 shares of £10 each fully paid" being added as a note, and the amount (£90,000) being extended into the principal Cash column.

Item No. 23.

The next unused item appearing in the Trial Balance on the Credit side is No. 23, "*Sundry Creditors, £21,750.*"

Nature of the item.—It represents the indebtedness of the Company to its creditors, whether Trade creditors or otherwise, whose accounts were outstanding on the books as on December 31, 1907.

Destination.—The item is entered in the Balance Sheet upon the Liabilities side under the heading of "Sundry Creditors." It is not, however, immediately entered in the principal Debit Cash column, but should appear in the "short" column, for the reason that there are other "Creditors," arising out of the process of closing the books, to be grouped with this item before the total is extended into the Debit column proper.

It will be remembered that a sum of £1,826 3s. has been debited (pursuant to footnote No. 35) in the Appropriation Account (see p. 637) as "Remuneration due to the Managing Director." This debit to the Appropriation Account involves a corresponding credit entry in the Managing Director's Personal Account, which credit entry

is brought into the Balance Sheet as an addition to the Sundry Creditors. The "Managing Director's Commission, £1,826 3s.," is therefore also entered "short" upon the Liabilities side in the Balance Sheet under the heading of "Sundry Creditors."

It will also be remembered that £500 was debited in the Profit and Loss Account (footnote 33 attached to the Trial Balance) as "Directors' Fees due but unpaid." The Directors are creditors for these fees, and need to be shown in the Balance Sheet among the "Sundry Creditors," as was the case with the Managing Director in respect of his remuneration. The £500 is therefore entered under the heading of "Sundry Creditors" in the "Short" column.

All the amounts due to Creditors have now been included in the Balance Sheet, and the total of the three items entered in the "short" column can consequently be added up and extended into the principal column. The total thus obtained will be found to amount to £24,076 3s.

Item No. 25.

Item No. 25 in the Trial Balance ("Bad Debts Reserve, £2,600") does not need considering until the candidate is constructing the Assets side of the Balance Sheet, as it is the practice to show such Reserves as deductions from the item "Sundry Debtors."

Item No. 26.

Item No. 26 in the Trial Balance ("Profit and Loss Balance, December 31, 1906, £750") has already been dealt with in the Appropriation Account.

Item No. 27.

"Reserve . . . £5,000."

Nature of the item.—This amount represents the general reserve existing in the Company's books as on December 31, 1906, *i.e.* the total amount of the profits set aside and permanently retained in the business up to that date.

Destination.—The item is entered upon the debit side of the Balance Sheet under the heading "Reserve Account," with the explanation "as per last Balance Sheet" annexed to the amount (£5,000). The £5,000 is not placed in the principal debit Cash column of the Balance Sheet, but is entered "short," owing to the fact that a further sum of £2,500 has been carried to the

Reserve as on December 31, 1907, which addition requires to be taken into account in due course.

The £2,500 addition to Reserve (note No. 36 in the Trial Balance) has already been debited to the Appropriation Account, and this sum therefore requires to be added to the pre-existing Reserve of £5,000.

The £2,500 is accordingly placed under the heading of "Reserve Account" in the "short" debit column in the Balance Sheet with the explanation "added during the year," and the total of the two items (£7,500) is then extended into the principal column.

The only other item which requires insertion in the Balance Sheet on the Liabilities side is the undistributed balance of the Profit and Loss Account, viz. the balance carried down in the Appropriation section of the account, £14,685 7s.

This item is entered direct in the principal debit cash column of the Balance Sheet, with the explanation "Profit and Loss Account (balance)" annexed thereto.

At the annual meeting of the Company, when these accounts are presented to the shareholders, the Directors will submit proposals for the distribution of this available balance, and will ask the shareholders to confirm their proposals by vote in the usual way.

The Liabilities side of the Balance Sheet has now been completed; the total of this side amounts to £136,261 10s., and the credit side, when constructed, should, of course, add up to the same figure.

Turning now to the "Assets" or credit side of the Balance Sheet, the candidate must, by referring to the Trial Balance, carefully pick out those balances which represent Assets; it is necessary for him, at the same time, to remember that various depreciation allowances and reserves have been incorporated in the Profit and Loss Account, and that, therefore, the Trial Balance figures representing certain assets require to be adjusted, in various instances, by the amount of such reserve or depreciation allowances.

The Assets appearing in the Trial Balance are dealt with seriatim as under—

Item No. 20.

"Land and Buildings . . . £22,250."

Nature of the item.—This amount represents the book value, as on December 31, 1907, of the Land and Build-

ings owned by the Company before providing for the depreciation written off for the year 1907.

Destination.—The item must be entered on the Assets side of the Balance Sheet, but inasmuch as a depreciation allowance has been made in the Profit and Loss Account (see footnote 28 in the Trial Balance) it must not at once be extended into the principal column of the Balance Sheet for the full sum of £22,250. The Trial Balance figure of £22,250 is therefore entered “short,” and from it is subsequently deducted the depreciation allowance for the year 1907 (£667 10s.), the net value of the asset, £21,582 10s., being then extended into the principal column.

Item No. 21.

“Machinery and Plant . . . £35,600.”

Nature of the item.—This amount represents the book value of the Machinery and Plant as on December 31, 1907, before providing for the depreciation written off in respect of the year 1907.

Destination.—In this case also the item must be entered “short” on the Assets side of the Balance Sheet, the relative allowance previously made in the Profit and Loss Account for depreciation of Machinery and Plant for the year 1907 (£2,136) being deducted therefrom, also, of course, in the “short” column. The difference between these two amounts, viz. £33,464, represents the estimated book value of the Machinery and Plant as on December 31, 1907, after making due allowance for depreciation, and it is this figure which is extended into the principal column of the Balance Sheet.

Item No. 24.

“Patents . . . £5,000.”

Nature of the item.—It represents the book value of the patent rights owned by the Company (*i. e.* the exclusive right to manufacture certain articles) as on December 31, 1907, before providing for the depreciation written off for the year 1907.

Destination.—This item requires to be entered on the “Assets” side of the Balance Sheet in the “short” column; the depreciation allowance of £500 for 1907, made in accordance with footnote No. 31 on the Trial Balance, must also be placed in the “short” column

immediately beneath the old book value of £5,000 and deducted from it; the net figure thus obtained (£4,500) represents the estimated present value of the patents to the Company for Balance Sheet purposes as on December 31, 1907, and this amount is then extended into the principal column.

Item No. 15.

"Insurance . . . £190."

Nature of the item.—It represents, presumably, money expended during the year in insuring the Company's premises against loss by fire, in insuring the Company against claims for workmen's compensation, loss through burglary or larceny, and possibly other insurances of various descriptions. A feature which characterizes almost all contracts of this nature is that the insurance policies run from year to year, the premiums thereon being payable annually *in advance*, i. e. at the beginning of the year covered by the insurance.

It frequently happens that, at the date of "balancing," there remains to the credit of the Company the unexpired benefit of several months' protection under various policies of assurance, the premiums upon which have been paid in advance for a year, commencing at some date subsequent to that upon which the books were last balanced. It is therefore only equitable that the trading period under review should not be charged with any greater proportion of the premiums paid in advance than relates to the actual months which have already expired; a just proportion of the premiums so paid in advance should therefore be carried forward to be *charged against the profits of the ensuing period* which is to enjoy the benefit of the protection afforded by the unexpired portion of the policies. In the example given this principle is illustrated; insurance premiums to the amount of £190 have been paid in advance, of which only £100 has run off during the period covered by the accounts, the balance of £90 being, therefore, the proportion of the premiums chargeable to the financial year 1908. These facts have been duly taken into account in charging only £100 of the £190 to the current Profit and Loss Account, and it remains therefore to rank the remaining £90 as an Asset (or rather as a "fictitious asset") on December 31, 1907, as representing the present book value of the premiums for the pro-

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portionate periods as yet unexpired, but which are fully covered by the policies already taken out and paid for.

Destination of the £90 Insurance unexpired.—It is entered as if it were an ordinary Asset upon the “Assets” side of the Balance Sheet, being extended in the principal column. It is so treated because, as has been explained above, the succeeding financial year (1908) ranks practically as a debtor to the year under review (1907) for sundry insurance premiums paid in advance upon its behalf.

Item No. 22.

“Sundry Debtors . . . £52,500.

Nature of the item.—This amount represents the total of the book debts owing to the Company by its customers and others as on December 31, 1907, after all the debts which are hopelessly bad have been written off. Such debts as are considered to be “doubtful” are included in the total of £52,500, the estimated losses upon this type of debt having been duly provided for by means of a Reserve. (Note 30 at the foot of the Trial Balance.)

Destination.—The total of £52,500 is entered on the Assets side of the Balance Sheet, in the “short” column; it is not entered immediately in the principal column owing to the fact that there is in existence a Reserve for Bad and Doubtful Debts which must be taken into account subsequently.

Item No. 25.

“Bad Debts Reserve (Jan. 1, 1907) . £2,600.”

Nature of this item.—This amount represents the Reserve brought forward upon the books of the Company as on December 31, 1906, in order to cover the estimated bad and doubtful debts as at that date.

Footnote No. 30 annexed to the Trial Balance directs that the Reserve for Bad and Doubtful Debts to be carried forward, as on December 31, 1907, is to amount to a sum equal to 5 per cent. on the total debts outstanding at that date, viz. 5 per cent. on £52,500, *i. e.* £2,625. As the pre-existing Reserve already amounted to £2,600, as set forth above, the necessary addition of £25 was made to it by means of a debit entry to the current Profit

and Loss Account, and the balance of "Reserve against Bad and Doubtful Debts Account" thus became £2,625, as on December 31, 1907.

Destination.—This figure would appear in the relative Ledger Account as a credit balance, *i. e.* as a "fictitious" *Liability*. In preparing the Balance Sheet, however, it is shown, in accordance with the usual practice, not on the "Liability" side as a constituent balance, but on the "Assets" side as a *deduction* from the gross total of the Sundry Debtors (£52,500). A net figure (£49,875) is thus obtained which represents the estimated present value of the book debts due to the Company as on December 31, 1907, and this figure is then extended into the principal column of the Balance Sheet.

Items Nos. 34, 4 and 5.

The only other Assets remaining to be included in the Balance Sheet are the value of the "Stock of goods on hand as on December 31, 1907, £23,700" (as mentioned in footnote No. 34), the "Cash in hand, £150" (item No. 4), and the "Cash at Bank, £2,900" (item No. 5).

The Stock is entered direct in the principal column on the Assets side of the Balance Sheet, a memorandum being attached indicating by what authority it has been valued ("as valued by the Company's officials"). Such an explanation is frequently added at the request of the Company's auditors.

"Cash at Bank" is entered on the Assets side in the "short" column, "Cash in hand" being entered immediately underneath it in the same column. The total of the two amounts (£3,050) is then extended into the principal column.

The total of the Liabilities brought into account on the debit or left-hand side of the Balance Sheet amounts to £136,261 10s., which accords with the total of the Assets now appearing on the credit or right-hand side of the statement, and, having arrived at this agreement, the candidate may safely assume that his solution of the question set is probably correct.

TRADING AND PROFIT AND LOSS ACCOUNTS for the year ended December 31, 1907

Cr.

1907.		£	s.	d.	£	s.	d.	£	s.	d.
Jan. 1	To Stock on hand.....									
Dec. 31	" Purchases.....	52,350	0	0				136,100	0	0
	Less Returns.....	750	0	0				23,700	0	0
	Gross Profit for the year...									
31	" Manufacturing Wages.....									
" 31	" Manufacturing Charges.....									
" 31	" Balance carried down, being									
	Gross Profit for the year...									
1907.										
Dec. 31	To Salaries.....				150,800	0	0	150,800	0	0
" 31	" Trade Expenses.....				1,500	0	0			
" 31	" Rates and Taxes.....				6,850	0	0			
" 31	" Insurance.....				250	0	0			
" 31	" General Expenses.....				100	0	0			
" 31	" Discount Account (balance).....				2,640	0	0			
" 31	" Bad Debts written off.....				1,800	0	0			
" 31	" Interest and Bank Charges.....				570	0	0			
" 31	" Depreciation—				350	0	0			
	Land and Buildings, 3 %.	667	10	0						
	Machinery and Plant, 6 %	2,136	0	0						
31	" Patents, amount written off.				2,803	10	0			
" 31	" Reserve for Bad and Doubt- ful Debts—				500	0	0			
	Amount reserved, Dec. 31, 1907.....	2,625	0	0						
	Less ditto, Dec. 31, 1906....	2,600	0	0						
31	" Directors' Fees.....				25	0	0			
" 31	" Balance carried down, being				500	0	0			
	Net Profit for the year.....				18,261	10	0	18,261	10	0
1907.										
Dec. 31	To Managing Directors' Con- tribution.....				1,826	8	0			
" 31	" Transfer to Reserve Account				2,500	0	0			
" 31	" Balance carried down.....				14,685	7	0	19,011	10	0
								19,011	10	0
								14,685	7	0

A MANUFACTURING COMPANY, LTD.

BALANCE SHEET, December 31, 1907.

LIABILITIES.				ASSETS.			
£	s.	d.	£	£	s.	d.	£
To Nominal Capital—				22,250	0	0	
15,000 Ordinary Shares				667	10	0	
of £10 each.....							21,582
150,000	0	0					10
" Share Capital issued—				35,000	0	0	
9,000 Ordinary Shares of				2,136	0	0	
£10 each (fully paid) ..							33,464
21,750	0	0	90,000	5,000	0	0	0
" Sundry Creditors.....				500	0	0	
" Managing Director.....							4,500
" Commission.....	1,826	3	0				90
" Directors' Fees.....	500	0	0				0
" Reserve Account—				52,500	0	0	
As per last Balance			24,076				0
Sheet.....	5,600	0	0	2,625	0	0	
Added during the year ..	2,500	0	0				49,875
" Profit and Loss Account							23,700
(Balance).....			7,500				0
			14,085	2,900	0	0	
				150	0	0	
							3,050
							0
							136,261
							10
							0

See Notes appended to the Balance Sheet on page 654.

EXAMINATION EXERCISE III

The examination question given below was set at a popular examination, and furnishes a good example of a third type of exercise frequently met with in higher grade book-keeping examinations—

Question.—The Postford Manufacturing Company, Ltd., was registered in 1902. The nominal Capital of the Company consisted of 40,000 5 per cent. Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each.

No dividend was paid for the year ended December 31, 1905, on either class of share.

The Company's books were closed and balanced, as on December 31, 1906, on which date the Stock in hand was valued at £9,050.

The balances of the Ledger Accounts were as follows—

	£	s.	d.
(1) Purchases	15,345	0	0
(2) Buildings	24,054	0	0
(3) Fuel	485	0	0
(4) Plant and Machinery	5,654	0	0
(5) Boiler and Heating Plant	592	0	0
(6) Repairs	472	0	0
(7) Loose Tools	1,856	0	0
(8) Office Expenses	362	0	0
(9) Sales	37,950	0	0
(10) Wages (Manufacturing)	13,671	0	0
(11) Discount (debit Balance)	83	0	0
(12) Reserve for Bad and Doubtful Debts (as on December 31, 1905)	250	0	0
(13) Salaries	1,062	0	0
(14) Postages and Telegrams	116	0	0
(15) Rates and Taxes	239	0	0
(16) Travelling	317	0	0
(17) Loan on Mortgage (charged on above premises)	8,500	0	0
(18) Interest and Bank Charges	402	0	0
(19) Directors' Fees	300	0	0
(20) Stock on hand (January 1, 1906)	8,990	0	0
(21) Sundry Creditors	10,960	0	0
(22) Sundry Debtors	9,847	0	0
(23) Goodwill	4,000	0	0
(24) Profit and Loss Account (Credit Balance from 1905)	206	0	0
(25) Preference Share Capital	17,520	0	0
(26) Ordinary Share Capital	8,000	0	0
(27) Unpaid Calls	50	0	0
(28) Bills Payable	2,100	0	0
(29) Bank Overdraft	2,721	0	0
(30) Cost of New Catalogue	300	0	0
(31) Cash in hand	10	0	0

Before preparing the annual accounts the following adjustments are necessary—

Provision for Bad and Doubtful Debts is to be made at the rate of 5 per cent.

Provide for depreciation at the following rates—

Plant and Machinery Account . . .	10 per cent.
Boiler and Heating Plant Account . . .	10 per cent.
Loose Tools Account . . .	20 per cent.

Write off one-third of the Cost of the New Catalogue, and one-half of the Repairs Account against the current year, carrying the balances of these accounts forward to next year.

Prepare a Trading and Profit and Loss Account for the year ended December 31, 1906, and a Balance Sheet as on that date.

It will be noted that in the above question, as in the case of Examination Exercise II, the candidate is required to prepare the annual accounts of a company or firm, but, in this case, no agreed Trial Balance is given to the student to work from, its place being taken by a schedule of Ledger balances which are not arranged as "debit" or "credit" balances, or classified in any way.

This latter type of exercise obviously takes a longer time to work out than the former; and, in addition to the usual work of preparing the required accounts, the candidate is compelled to use his knowledge and reasoning capacity in determining the nature and significance of each item in the schedule of Ledger balances presented to him to deal with.

When dealing with an exercise of this character some candidates make no attempt to prepare an initial Trial Balance from which to work, but commence at once to prepare the accounts required by the terms of the question. The author is of opinion that this proceeding is a mistaken one, and is often the cause of confusion and serious loss of time. In cases of this sort the short cut is often the longest way round, and the average candidate will, it is thought, gain both time and confidence by preparing, as the first step, an agreed Trial Balance from the figures given him in the question.

In answering a question of this type it is necessary, therefore, to commence by preparing a Trial Balance from the Ledger balances set out above. By mentally tracing the history of each Ledger balance, and the manner in which it would originate, the candidate will arrive at the required Trial Balance as follows—

Item No. 1. "Purchases . . . £15,345."

This item represents the total cost of the goods bought during the year 1906 for use in manufacturing the products dealt in by the Company. The goods bought have already been credited, in detail, to the persons by

whom they were supplied, and have been entered in the Purchases Book; the latter has been posted in total to the debit of the Purchases Account in the Ledger. This balance, therefore, must be entered in the *debit* column of the Trial Balance.

Item No. 2. "Buildings . . . £24,054."

This balance represents the book value of the Company's Buildings, as on December 31, 1906; in other words, it is an Asset. An Asset can only appear on the debit side of its relative Ledger account; this balance, therefore, must be entered in the *debit* column of the Trial Balance.

Item No. 3. "Fuel . . . £485."

This balance represents the total cost of the fuel purchased during the year 1906 for consumption at the Company's works. The purchase price of the fuel will already have been credited in detail to the persons from whom it has been bought, and these purchases have been debited in total to the "Fuel" Account in the Ledger; this account represents the year's expenditure in this direction. The balance must consequently be entered in the *debit* column of the Trial Balance.

Item No. 4. "Plant and Machinery . . . £5,654."

This balance represents the book value of the Plant and Machinery belonging to the Company, as on December 31, 1906. In other words, it represents an Asset owned by the undertaking. It must consequently be entered upon the *debit* side of the Trial Balance.

Item No. 5. "Boiler and Heating Plant . . . £592."

This balance represents the book value of the Boiler and Heating Plant owned by the Company, as on December 31, 1906. For the same reasons as those which apply in the case of item No. 4, viz. the fact that the Boiler and Heating Plant are Assets, the balance must be inserted in the *debit* column of the Trial Balance.

Item No. 6. "Repairs . . . £472."

This balance represents the total sum expended in keeping the Company's various Assets in a state of repair during the year 1906. The cost of these repairs will have been credited, in detail, to the Ledger accounts kept for the persons by whom they were effected (or to the Cash Account if paid for in cash), and a correspond-

ing amount will have been debited in total to the "Repairs" Account in the Ledger. The balance consequently must be included in the *debit* column of the Trial Balance.

The repairs effected during the year 1906 will, apparently, relieve subsequent years of certain expenditure in this direction, because the candidate is directed, in preparing his Profit and Loss Account, to include as a "loss" only one-half of this amount, carrying forward the remaining moiety as a "fictitious" Asset to be subsequently written off against the profits of the years immediately following.

Item No. 7. "Loose Tools . . . £1,856."

This balance represents the book value of the Loose Tools owned by the Company, as on December 31, 1906. These tools will either have been bought for cash (in which case Cash will have been credited and "Tools" Account will have been debited) or on credit (in which case the vendors' accounts will have been credited and the "Tools" Account debited). The item represents property owned by the firm, *i. e.* an Asset, and the balance is consequently included in the *debit* column of the Trial Balance.

Item No. 8. "Office Expenses . . . £362."

This balance represents the total sum expended in the direction of "Office Expenses" during the year. In recording these Expenses "Cash" will have been credited, and "Office Expenses" debited. The balance therefore is a debit one, and requires to be included in the *debit* column of the Trial Balance.

Item No. 9. "Sales . . . £37,950."

When a sale upon credit takes place, it will be remembered that an entry is at once made in the "Sales Book," which is subsequently posted in detail to the debit of the purchaser's account in the Ledger. It will also be remembered that, at the date of balancing, the Sales Book is added up, and the total, representing the total value of the merchandise which has "gone out" from the concern during the period, is posted to the credit of the "Sales Account."

Similarly, it will be remembered that "Cash Sales" are debited in the Cash Book (the money having "come in"), and are credited in weekly or monthly totals to the

"Sales Account," to be followed later by the total of the "Credit" sales.

Consequently this balance is a credit one, and requires to be inserted in the *credit* column of the Trial Balance.

Item No. 10. "Wages (Manufacturing) . £13,671."

This balance represents the total sum paid for wages during the year 1906 to the Company's workmen. The cash paid out weekly in wages would be duly credited in the Cash Book, as and when paid, and posted to the debit of the "Wages Account" in the Ledger, in which account the total mentioned above has gradually accumulated. The balance must consequently be placed in the *debit* column of the Trial Balance.

Item No. 11. "Discount (Debit Balance) . . £83."

Here the candidate is told that this balance is a debit one, needless to say, therefore, it must be included on the *debit* side of the Trial Balance.

It will be remembered that a multiplicity of items representing discount allowed and discount received are gradually accumulated in the debit and credit "discount" columns of the Cash Book, and that the totals of these columns are posted periodically to the debit and credit, respectively, of the "Discount Account" in the Ledger. Other items of discount may also be posted to the Discount Account in the Ledger from the Journal, or from other books of original entry. Between the debit and credit totals thus gradually built up in the Discount Account there is naturally a preponderance of either debit or credit entries, in this way a debit or a credit balance results. In the case of the item mentioned above the discounts allowed (losses) have obviously exceeded the discounts received (profits) by £83, and the final debit balance thus comes into being, and must be entered as a *debit* in the Trial Balance.

Item No. 12. "Reserve for Bad and Doubtful Debts (as on December 31, 1905) . . £250."

This Reserve will have been created in past years by one or more transfers from the Profit and Loss Account, the latter account having been debited with the sums so set aside as if they had represented actually ascertained Losses, and the "Reserve for Bad Debts Account" having been credited with the like sums. The item set out above, therefore, represents an amount of Profits retained in

hand for the purpose of covering a certain special type of loss (*i. e.* anticipated Bad Debts); it is thus a "fictitious" Liability.

The balance of the Reserve Account must consequently be included in the Trial Balance on the *credit* side, that being the side upon which the balance, as a liability, appears in the Ledger.

Item No. 13.	"Salaries"	£1,062."
„ 14.	"Postages and Telegrams"	£116."
„ 15.	"Rates and Taxes"	£239."
„ 16.	"Travelling"	£317."

The above four items are similar in character and may be conveniently explained on a common basis.

They all represent the total sums expended during the year 1906 for business expenses under their respective headings. The salaries of the clerks and other employees, the payments made for postages, telegrams, local rates, taxes, and travelling expenses have all been disbursed by the Cashier from time to time; upon their disbursement the Cash Account, Bank Account, or the Petty Cash Account, as the case may be, has been credited in detail, and the appropriate "Expense" Account in the Ledger has been debited. The detailed debits to these accounts have steadily accumulated throughout the year until, at its close, they amount to the sums respectively set out above.

All these items represent debit balances, and must be included in the *debit* column of the Trial Balance.

Item No. 17.	"Loan on Mortgage (charged on above premises)"	£8,500."
--------------	----------------------------------------------------------	----------

This balance represents the Liability of the Company to the person from whom an amount of £8,500 has been borrowed. The fact that a charge has been given upon the Company's premises to secure the repayment of the amount in case of default must not be allowed to obscure, in the candidate's mind, the simple issue in regard to this item, *viz.* that it is intended to record the fact that the Company has borrowed the sum of money specified, and that, therefore, it is under an obligation to repay £8,500 at some future date.

When the loan was originally contracted the money received will have been duly debited in the Cash Book, and a like sum credited to the lender's Personal Account in the Ledger; the balance set out in the list of Balances

given above represents this credit item, and the amount must, therefore, be included in the *credit* column of the Trial Balance as a liability.

Item No. 18. "Interest and Bank Charges . . . £402."

„ 19. "Directors' Fees . . . £300."

These balances represent, respectively, the sums disbursed by the Company for "Interest and Bank Charges" and "Directors' Fees" during the year 1906; both items represent "Losses," and are consequently debit balances, and must be included in the *debit* column of the Trial Balance.

Item No. 18 represents the total paid in the shape of interest due on money borrowed, together with the bank charges incurred during the year; these payments will have been duly credited in detail in the Cash Book, as and when made, and will have been debited to the "Interest and Bank Charges" Account in the Ledger. If the item had been designated simply as "Interest" it might conceivably have been either a debit or a credit balance, *i. e.* Interest paid *by* the Company on money borrowed by it or Interest paid *to* the Company on money lent by it; the inclusion of the additional item of "Bank Charges," however, fixes the total balance as a debit one, *i. e.* a "Loss," since bankers do not pay "Bank charges" to their customers, but receive them from them.

Item No. 19 represents the total sum disbursed to the directors by way of remuneration for their services during the year 1906, it is consequently a "Loss," and therefore a debit balance.

Item No. 20. "Stock on hand, January 1, 1906, £8,990."

This item represents the value of the goods in hand at the commencement of the financial period under review; it therefore represents an Asset, and is consequently a debit balance. It will be remembered that, at the end of the preceding trading period, *i. e.* December 31, 1905, an entry must have been passed crediting the Trading (or Manufacturing) Account with the closing Stock then on hand, and debiting the "Stock" Account with the same sum as representing the opening Stock carried forward to the succeeding period, *i. e.* for the year 1906. It is the latter entry which created the present debit balance.

The item, therefore, must be included in the *debit* column of the Trial Balance.

The fact that this Asset is dealt with in the Trading Account and not in the Balance Sheet does not affect the necessity of including it as a debit balance in the Trial Balance which the student is preparing.

Item No. 21. "Sundry Creditors . . . £10,960."

This sum represents the total amount owing by the Company to the trade and other creditors, as on December 31, 1906. It is thus a Liability, and consequently requires to be included in the *credit* column of the Trial Balance.

Item No. 22. "Sundry Debtors . . . £9,847."

This item represents the total amount owing to the Company by its trade and other debtors, as on December 31, 1906. It is thus an Asset, and requires to be included in the *debit* column of the Trial Balance.

Item No. 23. "Goodwill . . . £4,000."

This item represents the cost to the Company of that intangible Asset known as "Goodwill." The cost of this Asset will have been credited in the Cash Account, if paid for in cash, or to the Personal Account of the vendor if purchased from him upon credit, either separately or in company with other Assets upon the transfer of the business to the Company, and a corresponding sum will have been debited to the "Goodwill" Account in the Ledger, from whence it has been extracted in the Trial Balance.

The item, therefore, requires to be placed in the *debit* column of the Trial Balance as an Asset.

Item No. 24. "Profit and Loss Account (Credit Balance from 1905) . . . £206."

The student is here informed that this Balance is a "Credit" one, and it must consequently be placed by him in the *credit* column of the Trial Balance.

The item represents the undistributed balance of profit made prior to December 31, 1905, and carried forward, as on that date, to the accounts for 1906. If the balance had been a debit one it would have represented the balance of the net loss brought forward. Without the addition of a note indicating upon which side of the Ledger the balance appeared the item would have been ambiguous.

HOW TO ANSWER EXAMINATION PAPERS 647

Item No. 25. "Preference Share Capital . £17,520."

„ 26. "Ordinary Share Capital . £8,000."

These items are similar in character, although the classes of capital to which they relate differ in their respective priorities among themselves.

Both the items represent the total sums received, in cash or in kind, from the shareholders of the Company; whether the shares have been paid for in money or in kind, the Assets acquired, by the issue of the Capital, will have been debited in the Company's books to the various Ledger accounts opened for each particular type of Asset, and the corresponding credit entries will have been made in one or other of the two "Capital Accounts" ("Preference" or "Ordinary") here mentioned.

It will be remembered that when shares are issued for cash the "Share Capital Account" is credited and the "Application and Allotment," "First Call," or other accounts representing the liability of the allottees to the Company are debited. It is the "Share Capital Accounts" that the items in question represent. The Company's shareholders, as a body, are regarded as creditors for the amount of the Capital they have subscribed in the same manner as the partners in a firm are treated as quasi-creditors for the amounts of their respective capitals.

Both balances, therefore, require to be placed in the *credit* column of the Trial Balance.

Item No. 27. "Unpaid Calls . . . £50."

It will be remembered that, on a call being made by a Company upon its shareholders, the "Share Capital Account" is immediately credited with the total amount receivable by the Company under the terms of the call, irrespective of whether the money has actually come in or not, and that a "Call Account" (representing the personal indebtedness of the shareholders) is debited with the like total. As and when the calls are actually received they are credited to this "Call Account," the debit balance of which consequently steadily falls, until, when all the calls have come in, the two sides of the account adjust themselves and the "balance" disappears altogether.

Apparently, in the case under review, all the calls have duly come in with the exception of £50, which is still outstanding. This £50 consequently appears in the Ledger as a debit balance upon the "Call Account," and

represents the amount still due to the Company from one or more shareholders; and, as such is the case, the balance requires to be inserted in the *debit* column of the Trial Balance as representing "Sundry Debtors for unpaid Calls."

Item No. 28. "Bills Payable . . . £2,100."

This item represents the total outstanding liability of the Company, as on December 31, 1906, on the bills drawn on and "accepted" by it, *i. e.* upon bills which, having been drawn upon the Company, have been duly accepted, but have not yet matured for payment.

It will be remembered that, upon the acceptance of a bill, the acceptor immediately credits his "Bills Payable" Account with its face value, and debits the Personal Ledger Account of the person who draws the bill upon him. This balance of £2,100, therefore, represents the balance of the Company's "Bills Payable Account"; it consequently requires to be placed in the *credit* column of the Trial Balance as representing a Liability which, in due course, the Company will have to meet.

Item No. 29. "Bank Overdraft . . . £2,721."

This item represents a Liability of the Company to its Bankers, and requires to be placed in the credit column of the Trial Balance. It will be remembered that when a company possesses a balance in its favour at its bankers, such balance appears to the debit in its Cash Book; on the other hand, when, as has occurred in this case, the cheques drawn (credit entries in the Cash Book) exceed the debit balance appearing in the "Bank" column in that book, the balance of necessity appears on the other side, and the Cash Book shows a credit balance, representing the Company's liability to the Bank. In other words, the Company's account with its Bankers is "over-drawn."

The item consequently must be entered in the *credit* column of the Trial Balance as a Liability.

Item No. 30. "Cost of New Catalogue . . . £300."

This balance represents the total sum expended, *e. g.* for printing, paper, cost of dies and letterpress, in the preparation of a new catalogue setting forth the particulars and prices of the articles manufactured by the

Company for sale. Such catalogues are usually supplied *gratis* to customers and prospective buyers, and the above balance, presumably, includes the whole of the cost of preparing a new edition consisting of a given number of copies.

All money* disbursed in this connection will have been credited in detail in the Cash Book, as and when disbursed, and debited in due course to the "Cost of New Catalogue" Account in the Ledger. Any goods supplied on credit for the same purpose will have been credited in detail to the Personal Accounts of the suppliers and debited to the "Cost of New Catalogue" Account in the Ledger.

The balance is consequently a debit one, and represents an "Expense" incurred, and must therefore be placed on the *debit* side of the Trial Balance.

In cases where a new edition of a catalogue entails heavy expenditure, and the number of copies printed will meet the needs of several years, it is customary to spread the expenditure over future years in the same manner in which "Preliminary Expenses" are dealt with. In the case under review it is stated that one-third of the cost of the catalogue is to be written off against the profits of the current year, and that the balance is to be carried forward; this instance is thus an exemplification of the common practice. Consequently, in preparing the Profit and Loss Account £100 only is there debited as an "Expense," and, when preparing the Balance Sheet, the remainder (£200) is scheduled as a fictitious Asset.

Item No. 31. "Cash in hand . . . £10."

This item represents the balance of cash in hand (probably in the hands of the petty cashier) as on December 31, 1906; it is therefore an Asset, and requires to be included in the *debit* column of the Trial Balance.

This balance may be either the balance (debit) of the Petty Cash Book or the balance (debit) of the Petty Cash Account in the Ledger, and its source depends upon whether the Petty Cash Book forms part of the main system of Double Entry employed (as illustrated in Chapter IV) or not.

The Trial Balance arising out of the foregoing items is now completed and appears as follows—

THE POSTFORD MANUFACTURING COMPANY, LTD.

TRIAL BALANCE, December 31, 1906

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
(1) Purchases Account	15,845	0	0			
(2) Buildings Account	24,054	0	0			
(3) Fuel Account	485	0	0			
(4) Plant and Machinery Account....	5,654	0	0			
(5) Boiler and Heating Plant Account	592	0	0			
(6) Repairs	472	0	0			
(7) Loose Tools Account.....	1,856	0	0			
(8) Office Expenses	362	0	0			
(9) Sales Account				37,950	0	0
(10) Wages (Manufacturing)	13,671	0	0			
(11) Discount Account	83	0	0			
(12) Reserve for Bad and Doubtful Debts (as on Dec. 31, 1905)				250	0	0
(13) Salaries	1,062	0	0			
(14) Postages and Telegrams	116	0	0			
(15) Rates and Taxes	239	0	0			
(16) Travelling	317	0	0			
(17) Loan on Mortgage (charged on above premises)				8,500	0	0
(18) Interest and Bank Charges	402	0	0			
(19) Directors' Fees	300	0	0			
(20) Stock on Hand (January 1, 1906)	8,990	0	0			
(21) Sundry Creditors				10,960	0	0
(22) Sundry Debtors	9,847	0	0			
(23) Goodwill	4,000	0	0			
(24) Profit and Loss Account (Balance from 1905)				206	0	0
(25) Preference Share Capital Account				17,520	0	0
(26) Ordinary Share Capital Account..				8,000	0	0
(27) Unpaid Calls Account	50	0	0			
(28) Bills Payable.....				2,100	0	0
(29) Bank Overdraft				2,721	0	0
(30) Cost of New Catalogue.....	800	0	0			
(31) Cash in Hand	10	0	0			
	£88,207	0	0	£88,207	0	0

Having thus arrived at an agreed Trial Balance, as above, the candidate will next proceed to prepare the Trading and Profit and Loss Accounts, and the Balance Sheet, as required by the terms of the question.

As these accounts are practically identical in principle, and in method of preparation, with those already dealt with in "Examination Exercise II," appearing earlier in this chapter, it is not necessary to deal in detail with the preparation of the accounts which the student will find appended.

The following items are, however, somewhat different in character from any of those previously dealt with, and it may therefore be profitable to consider them briefly.

Item No. 19. "Directors' Fees . . . £300."

These fees must appear in the Profit and Loss Account as an ordinary business expense, as presumably the services of the Directors are essential to the successful conduct of the business, the profits of which must, therefore, bear the cost of their remuneration.

Item No. 24. "Profit and Loss Account (Credit Balance from 1905) . . . £206."

This item is not brought into credit in the Profit and Loss Account for 1906 proper; it is entered in the third section (usually called the "Appropriation Account" or "Section") of the Profit and Loss Account; in this section is also entered the Net Profit (£4,053 17s.) shown for 1906, according to the Profit and Loss Account for that year (the second section of the Profit and Loss Account on page 653).

The combined figure of Profit arrived at by adding together these two items, viz. £4,259 17s., is shown in the Balance Sheet as a separate item, and represents the amount of profit available for distribution. As these accounts relate to a Limited Company this balance of undivided profit must on no account be merged with the Share Capital figures, but each item must be kept separate in the Balance Sheet. In this respect companies differ from private partnerships in submitting their accounts.

Item No. 25. "Preference Share Capital . £17,520."
 „ 26. "Ordinary „ „ . £8,000."
 „ 27. "Unpaid Calls . £50."

The two former of these balances (Items Nos. 25 and 26) are credit balances, and require to be entered on the Liabilities side of the Balance Sheet under the heading of "Share Capital Issued." They must, however, be entered "short," and a combined total must then be made of them, again in the "short" column. The "Unpaid Calls Account" (£50) is a debit balance, and represents a debt due to the Company from its shareholders, but the item must not be entered on the Assets side of the Balance Sheet. It must be entered "short" under the capital total, as arrived at above, on the Liabilities side of the Balance Sheet, as a *deduction* from the total of the Issued Capital (£25,520), the net figure thus obtained (£25,470) being extended into the principal cash column

on the Liabilities side of the Balance Sheet. This process is followed in order that the Capital actually received by the Company may be clearly shown.

The "Nominal Capital" of the Company, viz. 40,000 Preference Shares of £1 each and 10,000 Ordinary Shares of similar denomination (£50,000 in all), must be shown in the Balance Sheet on the Liabilities side above all the other items, the details being inserted as a *memorandum* merely, and not as a part of the financial statement itself. The total must be entered in the "short" column, and separated from all the other items by means of a double ruling placed underneath it in order that it may be clearly seen that this "Nominal Capital" has not of necessity been issued or paid up. In preparing the Balance Sheet which appears on page 654, the assets have been marshalled in the order of their unrealizability. As has been previously explained in Chapter X, the assets of most commercial undertakings are set out in this order.

The Profit and Loss Account and Balance Sheet prepared in answer to the question are subjoined, and, subject to the above remarks, are, it is thought, self-explanatory.

THE POSTFORD MANUFACTURING COMPANY, LTD.

BALANCE SHEET, December 31, 1906

LIABILITIES.					
<i>£</i>	<i>s.</i>	<i>d.</i>	<i>£</i>	<i>s.</i>	<i>d.</i>
To Nominal Capital— 40,000 £ per cent. Preference Shares of £1 each.....	40,000	0	0		
10,000 Ordinary Shares of £1 each.....	10,000	0	0		
£50,000	0	0			
Share Capital issued— 17,520 £ per cent. Preference Shares of £1 each.....	17,520	0	0		
8,000 Ordinary Shares of £1 each.....	8,000	0	0		
25,520	0	0			
50	0	0			
Less Calls in arrear.....			25,470	0	0
Loan on Mortgage.....			5,500	0	0
" Sundry Creditors.....	10,920	0	0		
" Bills Payable.....	2,100	0	0		
Bank Overdraft.....			13,080	0	0
" Profit and Loss Account (Balance).....			2,721	0	0
			4,269	17	0
			£54,010	17	0

ASSETS.					
<i>£</i>	<i>s.</i>	<i>d.</i>	<i>£</i>	<i>s.</i>	<i>d.</i>
By Buildings.....	5,654	0	0		
" Plant and Machinery .. Less Depreciation.....	565	8	0		
Boiler and Heating Plant	502	0	0		
Less Depreciation.....	59	4	0		
Loose Tools.....	1,856	0	0		
Less Depreciation.....	371	4	0		
Goodwill.....					
" Expenditure on repairs and Catalogue.....					
Proportion carried forward in suspense, by the Company's Officials....	9,847	0	0		
Sundry Debtors.....					
Less Reserve for Bad Debts.....	492	7	0		
Cash in hand					
			9,354	13	0
			10	0	0
			£54,010	17	0

NOTE.—Every Balance Sheet issued by a Limited Company must bear the signature of two directors, and the auditors' report, or a reference thereto, must be attached. Any Shareholder is entitled to be furnished with a copy of the Balance Sheet at a charge not exceeding sixpence per hundred words (Companies (Consolidation) Act, 1906, sec. 113, subsec. (3)).

CHAPTER XXVIII

BOOK-KEEPING EXAMINATIONS

THE usefulness of this book may perhaps be increased by giving a list of the more important public bodies conducting Examinations in Book-keeping and Accountancy Subjects. The brief notes appended may also prove of service by showing the divergent characters of the Examinations.

(a) The **Professional Accountant's Examinations** are of a highly technical character and restricted to candidates who have been articled to a practising "Chartered" or "Incorporated" Accountant. Five years in all must be served under articles,* and, in addition to the practical experience thus gained, efficient instruction and close application are essential to ensure success.

(b) The **University Degree Examinations** have only recently been inaugurated. It is premature, therefore, to express an opinion upon the practicability of the standard of proficiency required, or of the utility of the tests imposed. The papers set by the University of London demand considerable theoretical knowledge on the part of the candidate.

(c) The papers on book-keeping set by the **other Professional bodies** vary greatly according to the importance the subject holds in the particular profession and the kind of book-keeping required; *e.g.* the papers set by the Institute of Bankers differ from those set by the Law Society—the technicalities of the respective vocations naturally finding a place in the papers set.

(d) The **General Commercial and Technical Examinations** are those for which teachers are most commonly required to prepare students. The present treatise amply covers the syllabus for the more advanced grades of these Examinations, while for the intermediate grades Chapters I to XI, with Chapters XII, XIV, XV, and XVI will suffice. In some cases papers of two grades are set,

* Or three years if the candidate is a University Graduate.

while in other cases the papers are divided into three grades. These Examinations are open to all Candidates.

(e) The **Public and Secondary School Examinations** are chiefly of an elementary character. The author's treatise on *Elementary Book-keeping* (2s. net), written in simple terms, is adapted to the requirements of this class of candidate. The earlier chapters of the present volume (*Book-keeping and Accounts*) contain all the necessary instruction to prepare candidates for these Examinations, but they also contain additional matter not absolutely essential.

Alterations have recently been made in the syllabuses of several important examining bodies and will probably continue to be made in order to adjust them to growing requirements. Teachers doubtless make a practice of obtaining the latest issues of all syllabuses of the Examinations in which they are interested. With the object of assisting them in this respect, the addresses of the principal examining bodies are annexed. The list makes no claim to be exhaustive.

An asterisk (*) is placed against the names of the examining bodies whose more recent papers are reproduced in full detail on pp. 757 to 878 of this treatise; a dagger (†) denotes those examining bodies from whose papers a selection of questions has been made (see pp. 692-756).

EXAMINATIONS HELD BY PUBLIC BODIES AT WHICH PAPERS IN BOOK-KEEPING ARE SET.

(a) *Professional Accountants Examinations*—

England and Wales—

† Institute of Chartered Accountants in England and Wales, Moorgate Place, London, E.C.

† Society of Incorporated Accountants and Auditors, 50, Gresham Street, London, E.C.

Scotland—

Edinburgh Society of Chartered Accountants holding one conjoint examination with the Glasgow and Aberdeen Chartered bodies of Accountants.

Ireland—

Institute of Chartered Accountants in Ireland, 4, College Green, Dublin.

(b) *University Degree Examinations—*

University of London, South Kensington, London.

Book-keeping is an optional subject for the Final Bachelor of Science (Economics) Examination.

University of Birmingham, Birmingham. Book-keeping is a subject for the Bachelor of Commerce Examinations.

(c) *Other Professional Examinations—*

* † Institute of Bankers, 34, Clements Lane, London, E.C.

* † Chartered Institute of Secretaries, 65, London Wall, London, E.C.

* † Auctioneers' Institute of the United Kingdom, 34, Russell Square, London, W.C.

† Civil Service Commissioners (certain specified examinations), Burlington Gardens, London, W.
Institute of Actuaries, Staple Inn, Holborn, London, W.C.

Incorporated Law Society (Solicitors' Examinations), 113, Chancery Lane, London, W.C.

Surveyors' Institution, 12, Great George Street, Westminster, S.W.

(d) *General, Commercial and Technical Examinations—*

* † Royal Society of Arts, 18, John Street, Adelphi, London, W.C.

* † London Chamber of Commerce, 1, Oxford Court, Cannon Street, London, E.C.

* National Union of Teachers, 71, Russell Square, London, W.C.

* † West Riding of Yorkshire County Council, Education Offices, County Hall, Wakefield.

* Lancashire and Cheshire Institutes, Deansgate, Manchester.

* Midland Counties Union of Educational Institutions, The Secretary, Technical School, Handsworth, Staffs.

(e) *Public and Secondary School Examinations—*

University of Oxford Local Examinations, Merton Street, Oxford.

University of Cambridge Local Examinations, Syndicate Buildings, Cambridge.

College of Preceptors, Bloomsbury Square, London, W.C.

CHAPTER XXIX

THE BOOK-KEEPER'S COMPENDIUM

Abstract Statement = Abs. Sta.

Accommodation Bill.—A bill drawn by one party, accepted by another, and sometimes endorsed by a third party, without any real transaction occurring between them. Such a bill is designed solely for the purpose of being discounted by one of the parties to it for the purpose of providing him with ready money. Accommodation Bills are naturally regarded with disfavour by bankers, and would be discriminated against in a batch of bills presented for discount if their nature were apparent.

Account.—A narrative of financial or commercial transactions, showing their effect. "*Ledger Accounts*" are the various sections of a Ledger, showing, in concise form, the trader's dealings with persons, in things, or in regard to profits or losses, and their effect.

Account Current.—A copy of a Ledger account kept by a trader for any particular person, rendered by the trader to the person with whom he has dealt, or *vice versa*, at periodical intervals, *e. g.* quarterly, half-yearly, or yearly. A Current Account between merchants frequently bears interest, the method of calculating which is explained on page 221. In banking, a *Current Account* is one kept by a banker for a customer, the balance of which, or any part of it, is repayable on demand. It differs from a "*Deposit account*," the balance of which is only repayable after a stated period of notice of withdrawal (frequently 7 days). Interest is allowed on Deposit Accounts but not on Current Accounts. An **Open Account Current** is one the balance of which has not been agreed upon between the parties. An **Account Stated** is one the balance of which has been agreed upon between the parties to it. **Account Rendered** is an expression used when the balance of an account set forth in detail in a previous statement is brought forward on a statement of later date, *e. g.* "To account rendered, £35."

Account Days* (or Settlement Days).—Certain days fixed at periodical intervals by the Committee of the Stock Exchange for the adjustment of bargains entered into by members of the Stock Exchange. Two "Account Days" are fixed to occur in each calendar month for the settlement of bargains in general securities—one occurring about the middle of the month and the other towards its conclusion. Special monthly "Account Days" are set apart for the settlement of bargains in Consols and other Government securities. These days are usually fixed at or about the beginning of each calendar month.

Accountant.—A person skilled in the art of recording financial transactions, and of showing their result. A *Professional Accountant* is one who, as a person skilled in accounts, undertakes to advise as regards systems of book-keeping, and to carry them out on behalf

* These have been suspended since the outbreak of war.

of his clients. Owing to the fact that his calling makes him conversant with accounts in all their varying relations, a Professional Accountant is usually employed in matters which are not, strictly speaking, accounts pure and simple, but which are closely related thereto, *e. g.* the auditing of accounts kept by others, the winding-up of insolvent estates, investigations and inquiries generally of an accounting nature. The two principal bodies of Professional Accountants in England are the Institute of Chartered Accountants in England and Wales (members of which body are styled Chartered Accountants) and the Society of Incorporated Accountants and Auditors (members of which are styled Incorporated Accountants). Three "Chartered" bodies of Accountants exist in Scotland, and one in Ireland; members of these bodies are styled Chartered Accountants.

Act of Bankruptcy.—An act falling within a prescribed class of acts done, or suffered to be done, by a debtor, upon which an English court of law will make a Receiving order against the debtor, a condition of insolvency being presumable from its occurrence. (For details, see page 423.) The levying of an execution against a debtor, and his suspending payment, are typical "Acts of Bankruptcy."

Administration, Letters of.—If a person dies without leaving a valid will, some one (usually a relative chosen because of kinship with the deceased, or, failing a relative, a creditor) is appointed by the High Court of Justice (Probate Division) to "administer" (*i. e.* realize and distribute) the deceased's estate according to the manner prescribed by law. This includes payment of the deceased's debts out of the proceeds of his property, and distribution of the remainder among the persons entitled to it. The grant of the right to "administer" given under the seal of the Court is known as the "*Letters of Administration*," and forms the document from which an "administrator" derives his right to deal with the deceased's property. If a person dies leaving a will in which no executors are named, a relative or other person may be appointed by the Court as "administrator" to carry out the directions of the will (*Administrator cum testamento annexo*) and in many other cases where there is a hiatus in the winding up of a deceased's estate an administrator can be appointed. An administrator must give security, and cannot act until Letters of Administration have been granted to him; his position, therefore, differs from that of an executor under a will, who need not give security, and can act immediately upon death of the testator (though he cannot prove his right to act until he has obtained a grant of probate of the will from the Court).

Advice.—A communication containing the information that a particular transaction has taken place, or is about to take place. A written communication advising an act or transaction is sometimes termed an "*advice note*," *e. g.* advice note setting out the weights of goods for shipment.

Affidavit.—A statement made in writing, and upon oath, before a Commissioner legally appointed to administer oaths. A person knowingly swearing an untruth in an affidavit is guilty of the crime of perjury. *Statutory declarations* are written statements solemnly and sincerely declared by the maker to be true before a functionary authorized to receive such declarations; the consequences of making false statutory declarations are the same, in point of law, as those of falsely swearing an Affidavit.

Agent.—A person appointed by another person (the “principal”) to perform specified acts on his behalf. By the acts of an Agent performed within the scope of the authority given him the “principal” is as much bound as if he had done them himself, and they are ordinarily as valid as acts personally performed by him.

Agreement.—In law, a contract or bargain between parties. Agreements may be made (1) verbally, (2) in writing “under hand” (*i. e.* signed by the parties thereto), (3) in writing “under seal” (*i. e.* signed and sealed by the parties thereto). Many forms of contract or Agreement require to be embodied in a written document. An Agreement “under seal” is of higher legal standing than an Agreement “under hand”; the latter needs consideration (*i. e.* the exchange of values) on both sides, the former does not.

Amalgamation.—This word is used commercially in relation to Companies to express the combination of two or more independent concerns into one undertaking.

Amortization.—This term implies in book-keeping the gradual writing off of a balance or of any particular class of expenditure. It is used in relation to expenditure rather than to tangible assets—the term “depreciation” being employed in regard to the latter with an almost identical meaning. *Examples.*—“Amortization of Capital Expenditure,” “Depreciation of Plant and Machinery.”

Annuity.—A payment made yearly. “Perpetual” Annuities are those which continue to be paid yearly for an indefinite period. Annuities “for fixed terms” are those payable yearly for a stated number of years. “Life” Annuities are those which are payable during the life of the annuitant. The Government and the leading life assurance offices will grant to any person an Annuity for the remainder of his or her life upon the payment of a fixed capital sum, based upon the amount of the Annuity desired, and the age at which it is granted, or at which it is to commence to be paid. This forms a convenient mode of financial provision in the case of elderly persons possessed of a moderate capital sum, and without other persons dependent upon them—a higher rate of income being obtainable than would be possible from investment in Stocks (an advantage which is natural seeing that no capital is ever returned); the annuitant, moreover, is relieved from anxiety as to his investments. “Deferred” Annuities are Annuities payable from a stated *future* date until death occurs—the purchase money being paid from the present time until the commencement of the Annuity, either in a lump sum, or in periodical instalments. The purchase of a deferred Annuity to commence at (say) age sixty by quarterly payments from now until that date is a convenient way for a young man or woman to acquire an old age pension with a minimum of inconvenience as regards payments.

Apportionment.—A division into parts; the term is employed in accountancy circles to indicate the division, in the case of a deceased person's estate, of the income received by his executors into “income accrued, due prior to the date of death” (which is part of the estate capital), and “income accrued, due after the date of death” (which forms part of the “income” of the estate). To allow of this being done, a special Act of Parliament, known as the “Apportionment Act, 1870,” was passed, which made all such income accrue due “from day to day.” Prior to the passing of the above Act, such Apportionment was not possible in a legal sense.

Appreciation.—Increase in value—the converse of “depreciation.”

The term is usually employed to indicate an increase of a more or less spontaneous nature in the value of an asset; *e. g.* the increase in the market value of Stock Exchange securities. The profit shown by the Appreciation of assets should not, in the case of a joint stock company, be divided among the shareholders until the assets have been sold, and the profit actually realized.

Arbitrage.—A term employed in financial circles to indicate the practice (frequently indulged in) of remitting money from one place to another in an indirect or circuitous manner instead of remitting it direct. It is frequently possible to remit money in this indirect manner at a fractionally cheaper cost than that of a direct remittance; *e. g.* a banker wishing to remit money by cable from London to Berlin may find it cheaper to remit the money from London to New York, and to have it remitted thence to Berlin direct, than it would be to purchase in London a direct cable transfer upon Berlin. The term is also employed in Stock Exchange circles to indicate the purchase of certain securities upon one Stock Exchange, and their simultaneous sale, at a fractional profit, upon another Stock Exchange; *e. g.* the purchase of Consols in Dublin and their immediate sale in London. By the operations of “arbitrageurs” the prices of drafts, cable transfers, and other forms of international remittance, as well as the quoted prices of securities on different Exchanges, are brought into harmony one with another. The telegraph, of course, plays an important part in all such transactions, which, indeed, without such facilities would hardly exist.

Arbitration.—The reference, by the parties to a dispute, of the matter at issue to a third party (termed an **Arbitrator**) for decision by him, instead of embarking in litigation. Settlement of commercial disputes by Arbitration is of frequent occurrence. The arbitrator can be a business man acceptable to both parties, and the matter may be concluded expeditiously and without the heavy expense involved in litigation. Professional accountants are very frequently appointed as arbitrators. Sometimes each party to the dispute nominates an arbitrator, and the arbitrators then appointed select a third party to act with them in case of their differing; such third party is termed an “**Umpire**.” The decision arrived at by arbitrators is termed their **Award**. If the submission to arbitrators has been made a rule of court, the award of the arbitrators may be enforced, if necessary.

Arrangement, Deed of.—A document setting out details of an agreement arrived at between a debtor and his creditors. The chief object of such an Agreement is the avoidance of the publicity attached to bankruptcy proceedings (see Chap. XX, p. 423).

Articles of Association.—The regulations governing the internal management of a company, and prescribing the way in which its chief officials are to perform their functions. A company can adopt its own “special Articles of Association,” and can alter them as it desires; if, however, it has not elected to have its own form of “Articles,” a series of regulations annexed to the Companies (Consolidation) Act, 1908 (Schedule I), and known as “Table A,” apply to it, and will govern its internal working.

A/S = Account Sales.

Assets.—Property of every description. Formerly the word was restricted in its commercial meaning, but is now broadly applied to all property available for the discharge of liabilities which can be converted into money or money's worth.

Assignment.—The transfer of property from one person to another—the latter party being termed the “**Assignee**.” (For “**Deed of Assignment**,” see Chap. XX, p. 427.)

Attorney.—A person appointed by another person (the principal) to perform acts on his behalf; the word has the same signification as “**agent**.”

Attorney, Power of.—A legal document appointing any person to be the Attorney for another person, either generally, or for the performance of some matter or matters specified in the document.

Audit.—The verification of accounts by an independent person. Private firms frequently submit their books to Audit by professional accountants. In the case of all joint stock companies, an Audit is obligatory. Most public bodies and municipal corporations are also compelled to appoint auditors. The auditor of a joint stock company, incorporated under the Companies (Consolidation) Act, 1908, must report to the shareholders as follows:—Sec. 113 (2), (a) whether or not they have obtained all the information and explanations they have required; and (b) whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

Averages.—In addition to expressing the arithmetic mean the term “**Averages**” has become of technical use in connection with marine insurance. Losses arising out of shipping disasters are termed either “**total losses**” or “**partial losses**.” If the ship insured is (1) destroyed, or (2) irreparably damaged, the loss is a “**total**” loss. On the other hand, partial losses consist of damages or losses which, as the term implies, do not involve the whole ship or its cargo. Such losses are termed either “**Particular Average**” or “**General Average**” losses. A **Particular Average** is one arising from the perils of the sea, and which falls solely on the owner of the goods involved, and for which he has no right of contribution from others interested in the venture. A **General Average** is the term employed to indicate the common contribution made by all parties in a venture, in cases where losses have been sustained owing to the necessary sacrifice of a portion of the cargo or of the ship's gear, in order to insure the safety of the ship and the remainder of the cargo. In order to claim justification, the sacrifice involved must have been essential to the avoidance of a *total* loss. In arriving at the contributions due under General Average, the loss incurred is divided *pro rata* among all parties. Salvage charges may also, in certain circumstances, be treated as partial losses.

Award.—See “**Arbitration**.”

Bank Post Bills (B.P.B.).—Bank drafts, drawn by one office or branch of the Bank of England upon another of its offices or branches, usually payable at 7 or 60 days after sight. They form a convenient method of remitting money from one part of the country to another, and are issued to any person without charge. Their use has to a great extent been superseded in modern times by the introduction of the cheque system of making payments, and by the employment of bank drafts, issued by the numerous large joint stock banks.

Bank Rate.—See “**Bank Return**.”

Bank Reserve.—See “**Bank Return**.”

Bank Return.—The statement of its financial position published by the Bank of England on Thursday in each week pursuant to the Act of Parliament, 7 and 8 Victoria, cap. 32 (Bank Charter Act). The Return is in the form of a twofold balance sheet, corresponding to the statutory twofold division of the Bank's business. After the passing of the Bank Charter Act the Bank was divided into two departments, viz. the Issue Department (for the issue of notes and the custody of the assets held against them) and the Banking Department (conducting a general banking business). The Issue Department may only issue notes against the British Government Debt and similar securities to the extent of slightly over £18,000,000. Against any notes issued in excess of this sum, gold (either in the form of coin or bullion) must be held. The Issue Department is thus in theory automatic. The Banking Department conducts its business just as any other bank does, and holds its cash balance against its liabilities to depositors, partly in the form of coin, and partly

BANK OF ENGLAND

AN ACCOUNT pursuant to the Act 7 and 8 Vict. cap. 32, for the Week ending on Wednesday, the 7th day of July, 1920.

Issue Department

£		£	
Notes Issued	187,935,475	Government Debt	11,015,100
		Other Securities	7,434,900
		Gold Coin and Bullion	119,485,475
		Silver Bullion	—
	£187,935,475		£187,935,475

Banking Department

£		£	
Proprietors' Capital	14,553,000	Government Securities	52,424,853
Reserve	3,274,474	Other Securities	33,894,614
Public Deposits (including		Notes	15,191,660
Exchequer, Savings		Gold and Silver Coin	1,252,227
Banks, Commissioners of			
National Debt, and Divi-			
dend Accounts)	17,886,048		
Other Deposits	117,085,455		
Seven Day and other Bills ..	14,377		
	£152,768,354		£152,768,354

in the form of notes issued by the other department of the Bank, *i.e.* the Issue Department. The Banking Department depositors are, in the main, the great joint stock banks of the Kingdom, and upon the Bank's ability to pay them their deposits depends to a great extent their ability to satisfy their own depositors throughout the length and breadth of the country. The periodical variations in the proportion of cash held by the Bank as against deposits are thus followed with the greatest interest by the banking community, and all financial interests connected therewith. A form of "Bank

return" is annexed. In normal times the upper portion (the Issue Department's return) can be disregarded, as the department whose position it embodies is purely automatic in its action. The lower half (the Banking Department's Return) is the section around which the chief interest centres. In the Return illustrated the liability to depositors amounts to nearly £135,000,000, against which liability notes and coin are held to the amount of nearly £16,500,000. The ratio of cash held (the "**Bank Reserve**") to deposits is thus about 20 per cent. ; being less than in pre-war days. As this ratio of cash to deposits falls, the Bank of England, in self-defence, raises the rate of interest (the "**Bank rate**") charged by it for discounts and loans, and the other banks follow its example, either from choice or necessity. Similarly, when its ratio of cash to deposits is high the Bank rate falls, and loanable capital throughout the country becomes cheaper. The position of the "**Bank rate**," the "**Bank Returns**," and the "**Bank reserve**" is thus of vital importance to the mercantile community, in consequence of the fact that the operations of modern commerce are conducted to so large an extent upon borrowed capital.

Banker's Drafts (Bank Drafts).—Bills of Exchange drawn by one banker upon another. They are used in commerce as a means of remittance, especially for the remittance of money from one country to another. Almost any bank will sell, either to its customers or the public, a draft drawn on any place in the U.K. or abroad, and the draft may be made payable to the person obtaining it, or to any other person designated by him. For inland Banker's Drafts a commission is sometimes charged, but in the case of foreign or colonial Bank Drafts the drawing banker's remuneration usually takes the form of a small difference obtained by him in the rate of exchange ; or the interest obtained by him for the time the money remains in his hands.

Bill of Lading (B/L).—See page 196.

Bill of Sale (B/S).—A document transferring personal property from one person to another—commonly given as security for a loan. When a Bill of Sale is given as security for a loan the latter must not be less than £30, the Bill of Sale must be in a prescribed form, and must be registered at a prescribed public office. The goods remain in the possession of the borrower until he fails to comply with the terms upon which his loan was contracted, and the lender can then seize and sell the goods.

Bills of Exchange (B/E).—See Chap. XII, page 190.

Board.—A term applied to executive officers acting collectively, *e. g.* the "Board of Directors" of a Limited Company.

Board of Trade.—A Government department (established in 1656) entrusted with the supervision of all matters relating to trade, navigation, and railways. The Board, as a Board, exists but never meets, all business being transacted by the President (who is ordinarily a Cabinet Minister), or through the Secretaries (who are civil servants).

Bond.—In English law a document under seal, the giver of which "binds" himself to pay a specified sum of money on special conditions, or at a given date, either to a prescribed person or to bearer. Most foreign governments, many British, foreign, and colonial corporations, and railway companies, issue "Bonds" to secure advances made to them, or loans publicly issued by them. In the U.S., railway loans which would in England be covered by "debentures" are covered by "Bonds to bearer," issued usually for \$1,000 each.

These Bonds are largely held by insurance companies and private investors in this country, and are frequently secured by a charge upon the railway. The term "**Gold Bond**" is commonly applied to such Bonds as are payable in gold, and not in paper money or silver. In the case of dutiable goods imported into this country and warehoused, the importers frequently give to the Government a Bond or undertaking to pay the duty when the goods are removed from the warehouse specified. Such a warehouse, though it may be privately owned, comes within the supervision of the customs authorities, and is termed a "**Bonded Warehouse**," and the goods stored within it are termed "**Goods in Bond**."

Bonus.—An additional and occasional dividend arising out of unusual profits paid to the shareholders of a public company. A special present or additional remuneration given to an employee, usually in the form of a percentage on results. A share of the profits earned by a life insurance company allocated to such of its life policy holders as hold policies entitling them to share in the profits so realized.

Book Debts.—The amounts outstanding at a given date, and owing to the trader, in whose books they appear, by the persons with whom he has traded.

Bottomry—Bottomry Bond.—A special form of charge given by the owner or captain of a vessel upon the vessel itself in return for money lent. "**Bottomry**" is a corruption of the word "**bottom**," or keel of the ship, which part of the vessel is taken to imply the whole. In case of money borrowed on Bottomry the principal is not repayable if the ship be lost, but is repayable with any agreed interest upon the safe termination of the voyage. Bottomry Bonds and Respondentia Bonds (*i. e.* bonds secured on the *cargo* instead of the *hull* of a ship) have, through the extension of telegraphic facilities, fallen into disuse.

Brokers.—See "**Jobbers**."

Bullion.—Gold and silver in practically any form when of the standard fineness accepted by the mints of the civilized world. Gold will be minted into coin free of charge by the British Mint, but the privilege is rarely taken advantage of, although the Mint price of standard gold is £3 17s. 10½*d.* per ounce as compared with the Bank of England rate of £3 17s. 9*d.* The uncertainty of the time the coinage will occupy tends to induce holders of Bullion to dispose of it to the Bank of England at the lower rate, rather than take it to the Mint to be coined.

Cash Credit.—An undertaking whereby a bank permits a customer to overdraw his current account up to a specified sum. Cash credits are not commonly used in London, loans of round sums for specified periods taking their place. In granting a Cash Credit the bank usually requires from its customer some kind of security to cover, wholly or in part, the overdraft granted; the security may take the form of a deposit of bonds, title deeds or other realizable property, or the banker may accept the customer's personal bond with sureties, the latter guaranteeing to the bank full payment of its claims under the Cash Credit.

Certificate.—A written declaration testifying to the truth of some particular matter or fact. **Share Certificate**.—A Certificate under the seal of a company stating the ownership of shares in the company.

Chambers of Commerce.—Associations of merchants formed for the purpose of promoting commerce generally.

Charter Party.—A lease of a ship, or a part of a ship, for the conveyance of goods for a definite time, or for a specified voyage or voyages.

Chattels.—A legal term for “goods.”

Choses in Action.—A legal expression denoting certain forms of incorporeal property, *e.g.* debts and shares in joint stock companies.

Circular Note.—A document issued by a banker to a customer going abroad. Circular Notes are usually issued for round sums, *e.g.* £10, and can be cashed by the party holding them at any of the foreign correspondents of the issuing bank, as if they were bank notes.

Circulating Assets.—Another term for “floating” assets, *i.e.* the assets held by a concern for the purpose of being converted into money, as opposed to those which are held for permanent use (“fixed” assets).

Clearing, Clearing House.—The word “Clearing” is applied to the process whereby, as among a coterie of persons having a multitude of claims the one against the other, the claims due between the members as a whole are offset one against another, and only the differences or “balances” found to be due between the various parties are paid or received. Such a process results in economy of currency as well as economy of time and labour. **Bankers’ Clearing Houses** (for the adjustment of the totals of the cheques held by one bank on another) exist in London, and several large provincial towns. The London Clearing House is the most important of these institutions, and consists of three divisions, *viz.* the “Town” clearing (for cheques drawn upon certain great city banks), the “Metropolitan” clearing, for cheques payable in the metropolis, outside the limits of the “Town” clearing, and the “Country” clearing, for cheques drawn on the provinces. Every bank treats itself as the debtor of the Clearing House for all its own cheques presented for payment through the Clearing House, and as the creditor of the Clearing House for all cheques on other Clearing bankers held by it, and either pays to, or receives from, the Clearing House the difference between the two in the form of a single cheque on the Bank of England which acts as Banker to the Clearing House and its members. **Railway Clearing Houses** exist for the adjustment of transactions which have involved the use of two or more companies’ systems. A **Stock Exchange Clearing** exists on the London Stock Exchange to facilitate the prompt settlement of dealings in certain securities widely dealt in.

Codicil.—A supplement to a will. It requires execution by the maker of the will with all the formalities which are necessary in the case of a will.

• **Collateral Security.**—Any security deposited to cover, collaterally, a debt due upon another agreement or security (the “principal” security); *e.g.* stocks or shares may be deposited as Collateral Security for loans obtained from a banker, or to cover an overdraft in a banking account.

Commercial Credit.—An undertaking whereby a bank doing a foreign business engages to accept on behalf of an importer documentary bills drawn upon it by the relative exporter for the cost of the shipment. The bank, in such a case, holds the documents of title to the goods as security, as against the importer upon whose behalf it has accepted the bills, for the amounts of the acceptances.

Commission (Com.).—Agents and brokers are usually remunerated by means of a percentage (called a commission) upon the funds passing through their hands, *e. g.* $\frac{1}{2}$ th per cent. commission is usually charged by a stockbroker for purchasing Consols for a client.

Committee.—A body of persons appointed by a larger body of persons to transact some particular business in which all the persons are interested.

Company.—An association of persons for trading or professional purposes. (See Chap. XVI on joint stock companies.)

Compensating Errors.—Errors in a set of books which do not prevent the agreement of the trial balance—one error, or set of errors, in one direction being equalized and offset by other errors in a contrary direction. *E. g.* if the debit side of the Cash Book be added £10 in excess of the correct amount, and the Sales Book be added incorrectly likewise £10 in excess of the true amount, these two errors offset one another, and the trial balance “agrees” notwithstanding their existence.

Composition.—An arrangement between a debtor and his creditors whereby the latter accept in full settlement of his debts lesser sums than are actually owing. (See Chap. XX, “Bankruptcy.”)

Consideration.—Some benefit accruing to one party to a given contract or agreement, or some loss or detriment suffered by the other party; in other words, the price or subject-matter of a bargain. In the case of an agreement under hand (see “Agreement”) Consideration is necessary, otherwise the agreement is void, and sentiment, *e. g.* gratitude, is not legally a valuable Consideration capable of supporting a contract under hand based upon it. In the case of a Deed (*i. e.* an agreement “under seal”) no Consideration is necessary.

Consols.—An abbreviation of the word “consolidated.” The various issues of the debts of the Government have, from time to time, been merged into one mass, and the “Consolidated Stock” (as the result of the merger is termed) forms, at the present day, the bulk of the indebtedness of the British Government. The name “Consols” is applied in common parlance to the U.K. $2\frac{1}{2}$ per cent. Consolidated Stock. The word “consolidated” often appears as forming a part of the names of stocks, and usually indicates that some merger has been effected in the past. *E. g.* London County Consolidated 3 per cent. Stock, North-Eastern Railway Consolidated Stock (the name “North-Eastern Consols” is frequently applied to the latter).

Consul.—A commercial representative of a nation appointed by the Government and stationed in the territory of another nation chiefly for the purpose of protecting the commercial interests of the country that he represents.

Contingent Liability.—A liability which will only come into definite existence upon the happening of a specified event, *e. g.* the liability of an indorser on a bill of exchange, which only commences upon the dishonour of the bill by the acceptor. Contingent Liabilities are most suitably stated in a balance sheet in the form of a memorandum, or footnote.

Contract.—An agreement enforceable at Law. (See “Agreement.”)

Contract Note indicates commercially a memorandum of a sale effected for a principal by a broker, *e. g.* a stockbroker.

Coupon.—A detachable warrant for each payment of interest falling due upon a bond or debenture to bearer. Coupons are

attached to such bonds in sheets, much in the form of a sheet of postage stamps, a dated coupon being given for each payment falling due. As their due dates arrive coupons are cut off from the sheet, and are presented to the appropriate bank or office for encashment. Many sheets of coupons only extend for a given number of years, a larger detachable coupon called a "Talon" being attached as a voucher for a fresh supply of coupons when those attached have all expired. Coupons may be paid into the bank of the investor for collection. The receiving bankers collect and credit their customers with the amounts due (less tax) in the ordinary course.

Credit Note is a statement (frequently in red ink) sent to a person from whom "returns" have been received, or to whom an "allowance" has been made. The Credit Note sets out brief particulars of the transaction, and the amount at which it is being passed to the credit of the recipient of the note.

Currency is the medium of exchange employed for business purposes. Gold and silver have now been universally adopted as the circulating medium. The greatly increased volume of modern trading operations has had the effect of creating a paper currency in the form of cheques, bills, etc. In Great Britain the gold coinage is intrinsically worth its face value. The silver and bronze coins in circulation are "token" money, and are not intrinsically worth their face value.

d/d = days after date.

d/s = days after sight.

Debiture.—See Chap. XVI.

Debit Note.—A memorandum of indebtedness sent by a creditor to his debtor.

Deed.—An instrument in writing on parchment or paper, signed, sealed, and delivered by the maker of it. It is the most formal type of instrument known to English law, and needs no consideration to make it valid.

Deed of Arrangement.—See under "Arrangement, Deed of."

Demurrage.—Allowances by shippers or railway companies in case of the over-detention of goods entrusted to them for conveyance. The charge is usually upon a daily basis. Legal holidays and Sundays are not included in the demurrage charge.

Depreciation.—See "Amortization."

Dis. = Discount.

Distress.—Distress is the power to enforce the payment of a debt; such power is granted by the Common Law of England and is effected by the seizure of goods. The most common event in which the power of Distress is resorted to is the collection, by this means, of arrears of rent by a landlord from his tenant.

Dividend.—Etymologically "something to be divided"; in commercial practice the term indicates the sum or sums distributable among the share or stockholders of a public company. **Ex Dividend** and **Cum Dividend** are terms employed on the Stock Exchange to convey, in the former case, that the quoted price of the security in question does not include the next dividend, and in the latter case that such price does include such dividend.

Dividend Warrant.—A species of cheque issued by or for a dividend paying company, whereby its members obtain their dividends.

Dock Warrant.—A document issued by the authorities of a dock certifying that certain goods, specified therein, are in the custody

of the dock for and on behalf of the party in whose name the Warrant is drawn. Dock Warrants are, as a rule, transferable by endorsement, and need a 3*d.* stamp. When such goods are withdrawn from the dock a **Delivery Order** is signed by the proprietor of the goods instructing the dock authorities to deliver to the bearer of the order the goods, or a portion of them, specified in the Dock Warrant. A Dock Warrant is thus a document of title.

Dormant Partner.—A partner in a firm whose name does not appear in the title or style of the firm, and who takes no active part in the conduct of its business, but who possesses capital in the concern, takes a share of the profits, and bears all the liabilities incidental to the position of a partner.

E. & O. E. is the contraction of the words "Errors and Omission Excepted," which is still frequently to be found on invoices, etc. The practice of appending these letters is a useless one, and of no legal value whatever.

Endorsement, Endorsee, Endorsor.—See Chap. XII.

Endowment Policy.—A policy of assurance granted upon a person's life, the amount secured by which is payable to the assured person upon his reaching a certain specified age; or to his representatives at his death should the assured die before attaining the specified age. Premiums upon such policies are payable in some cases for the term of the policy, and in others for a limited number of years only. The policies may be entitled to a share in the profits or be "non-profit sharing" according to the premium paid.

Entry.—A record of a transaction made in its appropriate place in the appropriate book. The first Entry made in relation to any given transaction in a Book of Account, is termed the "*original*" Entry; subsequent Entries, arising from the "*original*" Entry, in other Books of Account are termed "*posted*" Entries, and the act of making them is referred to as "*posting*" the original Entries.

Entry, Port of, is a port at which exported goods may be unloaded, *e. g.* Boston is a Port of Entry for the U.S. Where protective tariffs are in force all imported goods must be landed at certain ports where revenue officers are stationed, and where the machinery necessary for assessing the amount of the tariff exists.

Estate.—A quantity of property. In bankruptcy, and with reference to the property of a deceased person, the word "Estate" is used to "signify the aggregate of the property in question."

Estate Duty.—A Duty payable to the Government upon the death of any person leaving property to the value of over £100. It is payable upon the aggregate of the estate at a rate per cent. calculated according to a scale varying with the total amount of the deceased's estate.

Ex. = Exchange. Also "out of," *e. g.* *ex s.s. Lucania*.

Exchequer Bills.—Bills issued by the Treasury to raise money for temporary purposes. Exchequer Bills form part of the floating or unfunded debt of the nation. Their price fluctuates with the national credit.

Exchequer Bonds.—Bonds issued by the Treasury for a definite period, to raise money for the same purpose as that for which Exchequer Bills are issued.

Excise Duties.—Duties placed upon specified articles (chiefly alcoholic liquors) produced and consumed at home.

Execution.—The seizure of goods owned by a person against whom a judgment has been given in a civil court, for the purpose

of satisfying the amount of the judgment by the proceeds of their sale.

Executor.—A person appointed by a testator in his will to carry out the instructions contained in the will. (See "Administrator.")

Factor.—A mercantile agent entrusted with the custody and control of goods belonging to his principal.

Firm.—A partnership. (See Chap. XV.)

Fixed Assets, or Fixed Capital.—Properties acquired or constructed with the expectation of earning profits by their use. (See Chap. XX.)

Fixed Charges.—Expenditure recurring constantly in periodical accounts. *E.g.* Rent, Rates, Taxes, and Interest on Mortgages.

Floating Assets, or Floating Capital.—The assets of a trader which are continually being transformed into cash. Cash itself is a Floating Asset. (See Chap. XX.)

Floating Charge.—A charge given by a company upon its property whereunder the company retains possession of the property charged, and may deal with it in the ordinary course of business until the company makes some default (*e.g.* fails to pay the interest upon the debentures conferring the Floating Charge), whereupon the charge "crystallizes," and attaches to the property in whatever form it may then be. Upon the "crystallization" of the charge the company may no longer deal with the property.

F. O. B.—Free on board. Goods bought to be placed on board a ship "F. O. B." are not at the risk of the purchaser until actually on board the ship. "F. O. R." = free on rail.

Folio.—A sheet of paper folded so as to make two leaves; in book-keeping the two pages, bearing the same "page number," presented to view when the book is opened. Ledgers and Cash Books, in which the ruling extends across the two pages open to view, thus usually consist of a succession of "Folios"; a Journal ruled according to the form given on page 73 does not usually extend over the two pages open to view, but is repeated on each of them; such a book consists of "pages," and each "page" is numbered separately.

Fraudulent Preference is legally defined as: "Every conveyance or transfer of property, or charge made thereon, every payment made or obligation incurred, and every judicial proceeding taken or suffered, by any person unable to pay his debts as they become due, from his own money in favour of any creditor or any person in trust for any creditor *with a view* of giving such creditor a preference over the other creditors, shall, if the person making, taking, paying, or suffering the same is adjudged a bankrupt on a bankruptcy petition presented within three months after the date of the making, taking, paying, or suffering the same, be deemed fraudulent and void as against the trustee in the bankruptcy." The most important factor in deciding whether any given transaction was fraudulent is the real *intention* of the bankrupt.

Freight.—The sum paid for chartering a ship or part of a ship, or for transmission of goods in a general ship. Freight may be payable either in advance, on departure of the vessel, upon arrival, or at other times as stated in the bills of lading.

Garnishee Order.—The method of execution by which a person who, owing a debt to a person against whom a judgment has been pronounced, is ordered by the Court on the application of the party in whose favour the judgment has been given not to pay such debt

to the person to whom it is due, but to pay it to the judgment creditor.

Gazette.—The *London Gazette* is the Government publication containing all the official notices of the Crown or Government. All the public notices necessary under Bankruptcy or Liquidation proceedings are advertised in the *Gazette*. Partnership notices should also be advertised in the *London Gazette*. In Scotland and Ireland similar notices appear in the *Edinburgh Gazette* and the *Dublin Gazette* respectively (published Tuesdays and Fridays).

General Average.—The loss sustained from a sacrifice purposely made in order to preserve a ship and its cargo (*e. g.* jettisoning a cargo). The person who has sustained the loss is entitled to recover a rateable contribution from all owners of cargo shipped in the vessel, and from all interested parties, the loss having been incurred for the benefit of all. (See also "Averages.")

Gilt-edged Securities.—Securities which are easily realizable and in which the due payment of interest and principal, as and when due, may be taken to be as safe as is humanly possible (*e. g.* Consols and War Loan).

Guarantee.—A promise by one person to answer for the debt, default, or liability of another person. A Guarantee must be in writing (Statute of Frauds), and must, unless under seal, be given for valuable consideration, although the latter need not be stated in the writing itself.

Guaranteed Stocks.—Stocks, the interest upon which is guaranteed by some undertaking, Government or body other than the undertaking by which it was originally issued and which is primarily responsible. *E. g.* the 3% bonds of the Grand Trunk Pacific Railway Company are "guaranteed" as to principal and interest by the Canadian Government. Certain British railway companies have issued a particular kind of preference stock, which they somewhat erroneously designate "Guaranteed" Stock. Such "Guaranteed" Stocks are not guaranteed by any outside body in the generality of cases, but are simply cumulative preference stocks, ranking before the non-cumulative preference stocks and immediately after the debentures.

Guard Book.—A book or cover wherein are preserved invoices, receipts, or vouchers. The Book usually contains a number of blank leaves to which the documents to be filed therein are attached by means of gum or paste.

Hire-Purchase Agreements.—Contracts whereby, upon the payment of a deposit, or a first instalment followed by the payment of a series of subsequent instalments of stated amount, the ownership of certain goods passes from the seller of them to the payer of the instalments. The goods are delivered by the seller to the hire-purchaser upon payment of the *first* instalment by the latter, and he thereby obtains the opportunity of using them. The legal ownership of the goods, however, remains vested in the seller until the receipt by him of the *last* instalment, the goods being, until that time, "lent," in a legal sense, to the hire-purchaser. If the hire-purchaser fails to meet any particular instalment, the seller (or lender) can resume possession of them. In the books of a manufacturer or seller of goods upon the "hire-purchase" system, the goods disposed of in this manner should, for the period previous to the receipt of the last instalment due upon them, be treated as "stock out on hire"—a separate Memorandum Ledger being kept

for the accounts of the various hirers, as also a separate "Hire-Purchase Day Book." The *total of the instalments due from a hirer* should, at the outset, be debited in his account in this Memorandum Ledger, but the entry in the Sales Day Book for this department of the business will be made upon the signature of the agreement at the *cost price* of the goods. The valuation of the amounts due from the various debtors under Hire-Purchase Agreements will be made at the end of any trading period as if they were stock in hand in the department concerned, and the amount at which any particular batch of goods should be valued will be arrived at by deducting from the hirer's debit balance the unpaid proportion of the cost. The total of the issues of stock under Hire-Purchase Agreements for the trading period (as ascertained by the Sales Day Book for this department of the business) will be credited to the Trading Account, and debited to the "Stock out on Hire-Purchase Account," in the General Ledger, to which account will be credited all receipts from hirers throughout the period, together with the value of the stock out on hire at the end of the period, calculated upon the basis given in the preceding paragraph—the latter amount being brought down as a balance of stock on hand. The "Stock out on Hire-Purchase" will then show a difference, representing the Profit or Loss upon hire-purchase trading generally; this difference must, in due course, be transferred to the Profit and Loss Account.

A specimen of a "Stock out on Hire-Purchase" Ledger is appended.

STOCK OUT ON HIRE-PURCHASE ACCOUNT

Dr.				Cr.			
1908.		£	s. d.	1908.		£	s. d.
Jan. 1	To Value of Stock out on Hire-Purchase Agreements at this date			Dec. 31	By Receipts from Hire-Purchasers during the year	1,010	12 9
		962	10 9		„ Value of Stock in hands of Hire-Purchasers at the end of the year (being the amount of the instalments not yet paid, after deducting the proportion of profit included therein)	3,625	3 4
Dec. 31	„ Cost of Stock sent out under Hire-Purchase Agreements during the year (as per Hire-Purchase Sales Day Book)	3,240	10 0				
	„ 31 „ Transfer to Profit and Loss Account, being the profit upon Hire-Purchase business for the year	432	15 4				
		£ 4,635	16 1			£ 4,635	16 1
1909.							
Jan. 1	To Value of the Stock out on Hire-Purchase Agreements at this date	3,625	3 4				

In cases where the articles acquired under a Hire-Purchase Agreement amount to a considerable sum, for example, Railway

Wagons, it is necessary to ascertain how much of each instalment represents interest, and how much payment for the intrinsic value of the assets purchased. This course is necessary, as it will be obvious that the instalments comprise both revenue and capital items. The question of depreciation will also need careful adjustment.

Holding out.—A legal expression indicating the representation by a person that he is a partner in a particular firm. A person who "holds himself out" as being a partner in a specified firm is liable as if he were a partner to any person giving credit to the firm in question upon the strength of such representation.

Hypothecate.—To pledge or mortgage. Assets are said to be "hypothecated" when a charge upon them is given to a creditor by way of security.

Income.—The amount of money coming regularly to a person either from property or in payment for services rendered.

Income and Expenditure Account.—Another name for a Profit and Loss Account; the term is frequently applied to the Profit and Loss Accounts of non-trading institutions and charities.

Incorporation.—The creation of a legal body. The life of an incorporated body is deemed to be perpetual, except in so far as it may be limited by the instrument of incorporation.

Increase of Capital.—A company may, subject to the regulations contained in its articles of association, resolve that the limit of its authorized capital shall be increased to any desired sum. Government duty is payable upon the increase just as in the case of, and at the same rate as, the original capital. If the articles of association contain no powers authorizing an Increase of Capital, a "special" resolution of the company is necessary to alter the articles in the desired direction.

Indent.—A term somewhat loosely applied to orders from agents or correspondents abroad.

Indenture.—A deed; formerly a deed with serrated edges.

Infant.—Legally, a person under the age of twenty-one years.

Inscribed Stocks.—Stocks, the holders and holdings of which are *inscribed* (*i.e.* recorded) in the books of a specified registrar, no separate certificate of ownership being issued to the proprietor. The British Government Debt and many municipal corporation and colonial borrowings exist in the form of inscribed stock. A purchaser of inscribed stock receives a memorandum from the seller, called a "Stock receipt," recording the receipt by him of the purchase money; the receipt, however, is of no value except as a memorandum, and need not be produced when the purchaser sells his holding. Transfers of such stocks from a seller to a purchaser are made in person, or by an attorney, at the office of the registrar, and not otherwise. A large number of stocks, including the British Government Debt, are inscribed at the Bank of England. Stocks which are thus inscribed are deemed to be less liable to fraudulent conversion than where the ordinary methods of transfer obtain.

Insolvency.—Inability to pay one's debts. (See Chap. XX, "Bankruptcy.")

Interest.—Interest is the compensation or "rent" paid by a borrower for a loan of money. It may be regarded as consisting of two portions, one the rent paid for the use of the loan, the other as a premium (in the nature of an insurance premium) for the risk of losing it. Money does not produce Interest of

itself, but only when lent; the Interest on capital credited to the partners in a business out of the profits of that business is not Interest in the true sense of the word; it is only termed Interest upon the analogy of a loan and for financial reasons.

Interest on Capital during construction.—Although a company may, and indeed must, pay all interest becoming due to its various loan or debenture creditors notwithstanding the fact that its works may still be in course of construction, and as yet earning no profits, it may not ordinarily pay any interest or dividends to shareholders except out of profits. With the special sanction of the Board of Trade, and if provided for by its own constitution, a company may pay interest to its shareholders during construction of its works or equipment, but the permission to do so is commonly coupled with various restrictions both as regard the rate of interest and the period of its payment. (*Companies (Consolidation) Act, 1908, sec. 91.*)

Interim Dividends.—Dividends declared at some intermediate date during a financial period, and provided either out of current profits, or out of the profits brought forward from the preceding period. In a joint stock company the power of declaring dividends rests with the company in general meeting, but the articles of association of the majority of companies authorize the directors of the company to declare "interim dividends."

Inventory.—A list or catalogue of articles, *e. g.* of fixtures and fittings.

Investment.—Property acquired by a capitalist for the sake of the income derived from it, and as a repository for funds owned by the purchaser. The income yielded comes to the capitalist in the form of interest, or as a share of profits earned by the employment of his money, and he is usually not an active participator either in its supervision or its production. Land, buildings, leases, loans upon mortgage, and ground rents are types of Investments relating to real property (*i. e.* to land); they were, prior to the institution of national debts and joint stock companies, the principal form of Investment; in this country, however, their vogue, as Investments, is not so great as it was, owing to the industrial revolution and its accompanying migration of the bulk of the population into the large towns. What are known as "Stock Exchange" Investments form, now-a-days, the type of Investment to which the word is most commonly applied. The securities dealt in on the Stock Exchange are the obligations or indebtedness in various forms of almost every civilized country, whether as national, municipal, provincial, or State debts, and the borrowings and the transferable shares of the innumerable British, foreign and colonial joint stock companies at present existing. As regards form, Stock Exchange Investments are of three types, viz. (a) **To Bearer**, transfer being effected by means of the simple delivery of the document. (b) **Registered**, the security being registered in the name of the holder for the time being, and a certificate of ownership being issued to him. Transfers are effected by written documents. (c) **Inscribed**. The characteristics of this class of security are similar to those of Registered Securities, except that the holder receives no certificate of ownership. (See "Inscribed Stocks.") It is impossible within the compass of these notes to discuss the question of Investments exhaustively; the following brief considerations may, however, be submitted for consideration. 1. That Investments cannot be obtained producing a high rate of interest without an

accompanying element of risk, the higher the yield the greater, as a rule, the risk. 2. That at the present time an investor who purchases stocks yielding over 6 per cent. per annum must, as a general rule, be prepared to face some degree of insecurity as regards the principal invested. 3. That, as between any two stated securities, one of which yields a higher return than the other, the increased return obtainable from the one security is usually, as compared with the other security, disproportionate to the additional risk involved. For the protection of trustees holding or investing money on behalf of other persons, the *Trustee Act, 1893*, states that trustees may, unless specially forbidden by the Trust Deed, invest money in the following securities, and if so doing they are not to be held responsible for any loss that may be sustained. They may also from time to time vary any such investments.

TRUSTEE ACT, 1893 (SECTION I).

- (a) Government Securities, Public Funds, or Parliamentary Stocks of the U.K., (b) On real or heritable securities in the U.K., (d) Indian Government Securities, and (e) Securities the interest of which is guaranteed by Parliament.
- (c) Bank of England and Bank of Ireland Stocks.
- (f) Metropolitan Board of Works Stock, London County Council Stock, and Metropolitan Police District Debenture Stock.
- (g) Debenture, rent charge, guaranteed or preference stocks of any railway in the United Kingdom, if the dividend for the last ten years has been not less than 3 per cent. per annum on the ordinary stock.
- (h) Stock of any railway or canal company, leased for not less than 200 years at a fixed rent to any railway company under (g).
- (i) Debenture stock of any Indian railway, the interest on which is paid or guaranteed, or (k) other stock on which a fixed or minimum dividend in sterling is guaranteed by the Indian Government, or upon the capital of which the interest is so guaranteed.
- (j) "B" Annuities of the Eastern Bengal, East Indian, and Scinde, Punjaub and Delhi railways, and any like annuities, charged on the revenue of India, also in "D" Deferred Annuities and "C" Annuities of the East Indian Railway.
- (l) Debenture, guaranteed, or preference stock of any incorporated water company in Great Britain which has for the last ten years paid a dividend of not less than 5 per cent. on its ordinary stock.
- (m) Municipal stocks of towns of over 50,000 inhabitants or County Council stocks issued under Act of Parliament or provisional order.
- (n) Water trust stocks of towns or compulsory districts of over 50,000 inhabitants where assessment for each of the last ten years has not exceeded 80 per cent. of the amount authorized.
- (o) Stocks authorized for investment of funds under the control of High Courts of Justice.

Section 2 sub-section (1) permits the purchase at a premium of redeemable stocks, but sub-section (2) prohibits investment in those

stocks otherwise available under sub-sections (g), (i), (k), (l) and (m) of section 1 which are liable to redemption at par or other fixed rate within 15 years of the date of purchase, or which stand at a premium exceeding 15 per cent. above the redemption value.

COLONIAL STOCK ACT, 1900.

Section 2 of this Act permits a trustee empowered under the Trustee Act, 1893, or the Trusts (Scotland) Amendment Act, 1884, to invest in any colonial stock registered in the United Kingdom in accordance with the provisions of the Colonial Stock Acts, 1877 and 1892, as amended by this Act, provided such stocks have been notified in the London and Edinburgh *Gazettes* as having been approved by the Treasury, subject to the restrictions contained in section 2 sub-section (2) of the Trustee Act, 1893.

For any further information about Investments the author would direct the attention of the student to the first part of *A Plain Guide to Investment and Finance*, by T. E. Young, B.A., where the whole subject is treated in an able and convincing manner.

Invoice.—A written statement rendered by a person parting with goods by sale or consignment to another person, giving the quantities, prices, and nature of the goods in question. A *pro forma* invoice is for reference only, and is employed (1) when goods are sent out "on approbation," (2) for use in the case of consignments abroad, (3) when dealing with the Customs authorities.

Invoice Book.—A record of invoices. The name is applied somewhat loosely to all of the three following kinds of books: 1. The Purchases Journal. 2. The guard book containing the original invoices received in respect of purchases of goods. 3. The press copies of "sales" invoices.

• **I O U.**—The recognized contraction for "I owe you." A written acknowledgment of a debt, containing no specified date for repayment, usually given as a voucher for, or evidence of, a temporary loan for a small amount. The following is the common form—

To MR. O. HARRIS,

I O U

Ten pounds.

ROBERT JAMES.

August 13, 1909.

An I O U as above requires no stamp. The name of the creditor need not appear on the document. Any specification of a due date added to the above form would convert it into a promissory note, and would render it inadmissible as evidence unless stamped in the ordinary way. An I O U is not a negotiable instrument.

Jettison.—The act of throwing overboard cargo or gear for the purpose of lightening the ship when in peril. (See "General Average.")

Jobbers, stock jobbers, dealers or merchants in stocks and shares on their own account. Brokers are agents appointed by their clients to deal in stocks for them; a broker, who is a member of the London Stock Exchange, upon receiving an order from a client to purchase stock buys it from a Jobber and not from another broker.

Joint and Several Liability.—If two persons are jointly liable for any particular debt or obligation, a plaintiff obtaining judgment against any of them for the debt is precluded from subsequent action against those not sued by him at the time. In the case of a

several liability all persons liable may be sued individually and in succession. A liability which is joint and several permits of action being taken against all or any of the joint debtors together or one after another, and a judgment obtained against one or more of them does not bar subsequent proceedings against the remainder. The liability of partners is a "joint" one, but they are severally liable for certain matters specified in the Partnership Act. *E.g.* the misapplication of customers' or clients' funds for the firm's benefit.

Judgment.—The decision of a competent court of law.

Latin Monetary Union.—A convention formed in 1865 between Belgium, France, Italy and Switzerland in order to maintain the "double standard," under which gold and silver rank equally in commercial transactions. Greece subsequently joined the union.

Lease.—A grant of property for life, or for a term of years, or from year to year from the owner of property (the lessor) to another person (the lessee). The consideration is sometimes a yearly or other periodical rent, and sometimes a lump sum paid at the commencement; if the latter, the payment (the **premium**, as it is called) must be written off in the lessee's books over the period of time for which the lease has been granted.

Legacy.—A gift of personal estate by will. Legacies are of three kinds: (1) Specific (of a definite article), (2) General (a sum of money payable out of the general estate), and (3) Demonstrative (payable primarily out of a specific fund, or, on the latter's failure, out of the general estate). Government duty is payable upon all legacies. The duty is calculated according to a scale of duties imposed according to the nearness of the relationship between the testator and the beneficiary. If the estate is insufficient to pay in full the legacies bequeathed by the will, the legacies are subject to abatement, *i. e.* they rank *pro rata* for a proportionately smaller sum.

Legal Tender.—The duly authorized medium of exchange. Gold and silver are now practically universally adopted as the medium of exchange. In Great Britain Gold is "legal tender" up to any amount, Silver up to 40s., and Bronze up to 1s.* Bank of England notes are legal tender for all sums for £5 and over, except at and by the Bank of England and its Branches. Bank of England notes are not legal tender in Scotland and Ireland. The money must be tendered unconditionally, and must be actually produced when the offer of payment is made. The person to whom legal tender is offered cannot be compelled to give change.

Letter of Credit = L/C—is a request from a banker to his agent or correspondent abroad authorizing him to honour the drafts of the party who is named in the letter of credit, and undertaking to duly meet such drafts when presented.

Liability.—An obligation. The debts of a company or trader are referred to as the "Liabilities" of the business or person. (See "Contingent Liability.")

Lien.—The right possessed by a person who has the possession of another person's goods or property to retain them if the owner is indebted to him; *e.g.* a solicitor has a "Lien" upon a client's documents for the amount of any costs that may be due to him. A particular Lien is one which attaches only to some specific article; whereas a general Lien covers general debts against which property is held by way of security.

* Also Treasury Notes for any amount.

Life Assurance.—A contract whereby, in consideration of a series of periodical payments termed *premiums*, made by, or on behalf of, a person (whose life is “assured”) to another person termed the “insurer.” The latter undertakes to pay on the death of the “assured” a certain sum to the person entitled to it under the contract.

Limitation of Actions.—Under the various “Statutes of Limitations” persons entitled to enforce any claims against other persons by way of legal action must bring their actions within specified periods of time, otherwise they lose their rights. For contracts made verbally, or in writing under hand, and rights arising out of them, a period of six years from the time when the right of action first arose is allowed, during which a suit in regard to them may be commenced. In the case of instruments or contracts under seal, a period of twenty years is allowed from the time when the right of action first arose, and a period of twelve years is prescribed for certain sums payable out of or charged upon land.

Limited Company.—A company formed under the *Companies (Consolidation) Act, 1908*, the members of which enjoy limited liability, their liability being limited to (1) the amount unpaid on any shares taken by them (“companies limited by shares”); or (2) to the amount they have agreed to contribute in the event of the company being wound up (“company limited by guarantee”). (See Chap. XVI, “Joint Stock Companies.”)

Liquid Assets.—Cash, and such assets as can be readily converted into cash

✓ **Liquidator.**—A person appointed to wind up or “liquidate” the affairs of a company by converting all its property into ready money, paying off all the creditors, and returning any surplus to the members of the company.

Lloyd's.—An association of independent insurers originally located at Lloyd's Coffee House. The insurances effected were formerly almost entirely confined to insurances on ships and their cargoes. In modern times, however, the functions of “Lloyd's” have broadened, and risks of all kinds are frequently undertaken. **Lloyd's Register of British Shipping** is a complete and valuable register of ships and their classification. **A1** denotes first-class vessels; **90 A1** indicates vessels of lower class; and **80 A1** that of the lowest class registered.

Lloyd's Bonds.—A railway company may not borrow in excess of the amount of the borrowing powers conferred upon it by Parliament; it may, however, issue to contractors for work done a form of bond or obligation which is very much the same thing as a debenture, the contractors being able to dispose of these bonds as if they were debentures. Bonds of this nature are termed “Lloyd's Bonds,” from the name of the counsel who invented them.

Managing Director.—A Director to whom special powers and duties in connection with the management of a company's business have been delegated by the board. The general management of the whole concern is frequently vested in the Managing Director.

Manifest.—A detailed schedule, containing the distinctive marks and numbers and the names of the consignors of all the goods comprising a ship's cargo. This document is prepared for delivery to the Custom House authorities at the port of destination.

Marine Insurance.—A contract whereby a person having property

exposed to the risks of transit by sea can secure himself against loss by paying a premium to an insurer, who will compensate him for any loss arising from the perils insured against, *e. g.* through shipwreck and the consequent loss of the cargo of which the insured's property forms a part. (See also "Averages.")

Memorandum of Association (of a company incorporated under the *Companies (Consolidation) Act*, 1903).—A document containing certain prescribed provisions, signed by the original members of a company at the date of its incorporation. It is registered with the Registrar of Joint Stock Companies, and forms the fundamental document upon the terms of which the company comes into existence. In the case of a company limited by shares the Memorandum must contain—1. The name of the Company, including the word "limited" as the last word thereof. 2. The part of the U.K. wherein the company's registered office is to be situated. 3. The objects for which the company is incorporated. 4. A statement that the liability of the members is limited. 5. A statement of the authorized capital with which the company is registered. Clauses 1, 2, 4 and 5 are, in practice, moderately brief, but Clause 3 (known as the "Objects" Clause) is commonly extremely lengthy and verbose. This is due to the fact that the company is legally restricted more or less to the objects set out in its Memorandum, and may not embark in matters not covered by it; hence the ingenuity of legal draftsmen usually includes in the objects clause not only power to carry on the business for which the company is originally formed, but general powers to carry on almost every imaginable class of business.

Mint par of Exchange.—A term used with reference to the comparison of the standard coins of two countries possessing different systems of coinage to express the relative weights (and the resultant relative values) of the precious metal contained in the two coins compared. The Mint par of the gold currency of France, as contrasted with the gold currency of Great Britain, is approximately 25·22½, *i. e.* a sovereign contains an amount of gold which would realize 25 francs 22 centimes in France, or, in other words, 25,225 francs in gold currency, freshly minted, would contain an amount of gold equal in value to that contained in a thousand newly-coined sovereigns. The Mint par of Exchange between two countries is the theoretical point about which the market value of drafts and cable transfers on either country ought to range, due allowance being made for any question of interest involved, and in practice this is, to a large extent, the case in normal circumstances.

Minute Book.—A book, required by the *Companies (Consolidation) Act*, 1903, to be kept by all companies within the purview of the Act. The purpose of the book is to record all resolutions and proceedings of general meetings of the company, and all proceedings of the directors or managers. The "**minutes**" (*i. e.* the record made in this book) of each meeting are commonly signed either by the chairman of that particular meeting, or by the chairman of the next succeeding meeting, and if so signed they form legal evidence of the proceedings they purport to record.

Moiety (legal).—A half.

Money.—A term originally confined to coined metal, but now applied generally to any currency used as the equivalent of coin in commercial transactions. The work formerly done by coined Money is now largely accomplished by means of various credit

instruments, such as cheques and bills. The functions of Money are: 1. To supply a medium for the exchange of merchandise or to recompense services rendered. 2. The common measure by which the differing values of goods are estimated. 3. To furnish a convenient method of expressing obligations, and a method of storing values. 4. To supply a convenient means of transmitting value from one place to another. Gold has now practically established its position as the predominant standard of Money. Even in those countries where two metals are employed to represent the standard of value—a system known as **Bimetallism**—gold is accorded the leading place. The commercial area within which loanable capital finds employment is termed the **Money Market**. The main business of the market consists of the discounting of bills and the granting of short loans (1 to 14 days). Money is said to be “dear” or “cheap” according as the supply of it is scarce or abundant, that is to say, when the amount of loanable capital available is plentiful Money is cheap and *vice versa*.

Mortgage.—A security for a debt created by means of a transfer to a lender of the ownership of property owned by a borrower. Such transfer secures to the lender the sum of money advanced, together with (in the majority of cases) the interest falling due thereon. As a general rule the borrower remains in possession of the property. Upon the full satisfaction of the total amount due under the loan the interest of the lender (the “**mortgagee**”) in the property pledged to him comes to an end, and the full ownership reverts to the borrower who effected the pledge (the “**mortgagor**”). Re-transfer of the property pledged being an understood proviso upon repayment of the debt in all cases. If, however, the borrower fails to repay the loan and interest within a certain period after it falls due, the lender becomes the owner of the mortgaged property, and can sell it to reimburse himself for the loan made by him. “**First**” Mortgages of land and buildings are commonly reputed to be a safe form of investment in this country, and ordinarily yield from 6 to 8 per cent. interest per annum, a rate which is appreciably higher than that obtainable on Government Stocks; a “**Second**” Mortgage is the subsequent Mortgage of property already subject to an existing (*i. e.* “**first**” or “**prior**”) Mortgage. It will be obvious that a second Mortgage is not so desirable a form of investment as a first Mortgage, and the rate of interest payable by a borrower for a loan secured in this manner is always appreciably higher than that paid upon the first charge. Debentures commonly contain clauses “mortgaging,” for the benefit of the debenture holders, certain property owned by the company which issues them: they are then known as “**Mortgage Debentures**.” A company incorporated under the *Companies (Consolidation) Act, 1908*, must, if it creates any Mortgages upon its property, or otherwise charges its assets, keep a record of all such charges in a “**Register of Mortgages**,” such Register being open for the inspection of members and creditors.

Negotiable Instrument is a document, usually embodying an acknowledgment of debt, capable of transfer by mere delivery. Such documents change hands unaffected by any defect of title on the part of the deliverer, if taken in exchange for value and in good faith. Cheques, bills of exchange, circular notes, bank notes, promissory notes, “bearer” scrip, and exchequer bills, furnish

examples of Negotiable Instruments. The words, "Not negotiable," are useless, from a legal point of view, except when employed in connection with the crossing of a cheque.

Net (Latin, *nitidus* = clean).—In commerce the term expresses the amount or quantity of money or merchandise after all deductions have been made.

Par.—From the Latin word meaning "equal." In commercial circles the word is employed to indicate the nominal or face value of a security. Stocks quoted above the nominal value are said to be *above par*, or conversely *below par*.

Pari Passu.—On an equal footing.

Patent (Patent Right).—An official document granting for a term of years the exclusive right to the proceeds of an invention. These rights are granted by the Crown to the inventor of a new manufacture or "new process." A patent right continues (subject to the payment of certain fees) for fourteen years from the date of the grant; there exists a power to grant to the patentee an extension of his patent for a limited number of years in excess of the original fourteen years, but this power is only exercised in exceptional cases. Where patent rights form part of the assets of a trader or an undertaker care must be taken to see that their original cost is written off over the period for which they exist.

Pawn (or Pledge).—A transfer of movable property made by one person (the pledgor) to another (the pledgee) in order to secure repayment of an advance made by the pledgee to the pledgor, or to secure the fulfilment or performance of some obligation to which the pledgor is subject. The pledgee has the right of selling the property pledged if the pledgor fails to fulfil his obligations at the appointed time.

Payment for honour *supra* protest.—If a bill has been dishonoured when presented for payment, and has subsequently been protested, any person may intervene and pay it for the honour of any party who may be liable upon the bill, or for the honour of the person for whose account it is drawn. Such a payment is styled one "for honour *supra* protest."

Per cent.—By the hundred.

Percentage.—A sum or number signifying a ratio to "one hundred." It is frequently convenient for purposes of comparison to reduce to a common basis the various items contained in a given financial or accounting statement, and the basis commonly taken is usually "one hundred." In the case of a Trading and Profit and Loss Account, it is customary, in reducing the accounts to a percentage form for the purposes of comparison, to take the amount of the sales or turnover as representing "one hundred," and to work out the relation to the sales of all the other items contained in the statement upon this basis. Every item thus becomes resolved into its proportionate expression "per hundred pounds of sales," and it is frequently found that a statement expressed in this way presents for purposes of comparison of cost a clearer view of the results attained than a Profit and Loss Account containing the actual figures. In some cases it may be preferable to take the cost of the goods as the standard of comparison. In colliery accounts the cost per ton of coal won is the basis usually taken.

Per Procurator (per pro) (*By procurator*).—The words *per pro* are commonly appended to the signature of a duly authorized agent when signing a document on behalf of his principal, the customary

form being: *per pro** A. Brown† C. Davies‡. The use of the words *per pro* indicates that the agent has only a limited authority to sign. The principal is not bound by the acts of his agent if the agent exceeds the scope of his authority.

Personal Property.—One of the two great divisions into which English law divides property, the other being that of “real property.” Real property includes freehold houses and lands, and the law governing such property is, owing to legal conceptions dating back almost to feudal times, different in many respects from that governing the other class of property. Personal property includes money, goods, leases, furniture, and other property of a similar nature.

Plaintiff.—A person who takes legal action against another person (the Defendant).

P/N = Promissory Note.

Policy.—A document expressing the obligation of an insurer to bear or sustain the loss or the damage arising out of the risk undertaken by him, or to pay a certain fixed sum upon the happening of a specified event. Marine, Life, and Sinking Fund Policies may commonly be assigned, but Fire Insurance Policies are, as a general rule, non-assignable. The annual or other periodical payment due under the terms of a Policy of insurance is called the premium.

Poll.—An appeal to the whole of the members of a given body of persons in order to ascertain the preponderance of opinion among them upon any particular question. In the case of general meetings of joint stock companies the opinion of the meeting is usually taken by a show of hands; but persons who may be dissatisfied with the result of this method of voting may commonly demand that a “Poll” of all the members of the undertaking shall be taken. A demand for a Poll must be in writing, and due notice should be given to the shareholders of the date and place upon which the Poll will be held.

Post-dated Cheque.—A cheque drawn and signed upon a day antecedent to the date inserted in it. Post-dated Cheques are commonly given as acknowledgments for loans, between parties, although their execution amounts to a breach of the stamp laws.

Postponed Creditors (Deferred Creditors).—In bankruptcy the following creditors' claims are deferred or postponed until all other creditors' claims have been satisfied: 1. The lender of money to the bankrupt under a contract in writing to the effect that interest is to be paid on the loan at a rate of interest varying with the profits, or that a share of profits is payable to the lender in lieu of interest. (The object of the contract *in writing* is to afford proof that the lender, although thus sharing in profits, is not a partner.) 2. The seller of the goodwill of a business to the bankrupt in consideration of a share of profits. 3. Money entrusted by a wife to a husband for the purpose of any business carried on by him.

Preferential Creditors.—In bankruptcy, and also in the winding up of companies, the following creditors are entitled to payment of their claims in priority to all other creditors, viz. 1. Rates and taxes, subject to certain stipulations, for not exceeding one year. 2. Clerks' wages for not more than four months prior to receiving order (or winding up), up to £50. 3. Workmen's wages, similarly, for not more than two months, and not exceeding £25. 4. (In bankruptcy only) Money held by the bankrupt, if an officer of a Friendly Society, by virtue of his office. 5. (In bankruptcy only)

* Or “p.p.”

† The principal.

‡ The agent.

The claim preferred by or for an articulated clerk to the bankrupt in regard to the unexpired portion of any premium paid by or for him to the bankrupt.

Premium.—See "Policy."

Presentment for Acceptance.—The presentment of a bill for acceptance to the party upon whom it is drawn. Where a bill is payable "after sight" presentment is necessary in order to fix the maturity of the instrument.

Press copy.—A copy of any document (written in copying ink), obtained upon a sheet of tissue paper by passing the document itself and the tissue paper through the copying press. Most mercantile documents of any importance, *e. g.* letters, invoices, etc., are press copied; cheques, bills, and documents drafted by lawyers are not commonly press copied.

Primage (or Hat Money) is a gratuity payable to the master of a ship in recognition of careful navigation, etc. The term and practice are now, however, largely out of use.

Private Company.—A limited liability company, formed under the Companies (Consolidation) Act, 1908, which: 1. Cannot consist of over 50 members. 2. Restricts the right to transfer its shares. 3. Is prohibited from making a public issue of its shares. Such a company may consist of two or more members. (See Chap. XVI, "Joint Stock Companies.")

Probate.—The official proof of a will. (See "Administration.")

Profit.—The sum obtained by the employment of capital in productive enterprise after (1) paying all expenses of trading and (2) making any necessary provision for replacing capital lost.

Profits prior to incorporation.—If a company, incorporated at a given date, purchases a business as a going concern as from a date prior to the date of its incorporation, the proportion of such profits made prior to the date of incorporation are not profits available for distribution as dividend to the shareholders. A company cannot make profits prior to the date at which it comes into being, and any such accrued profits therefore which have been bought by it should be written off the purchase price of the goodwill, or placed to a capital reserve account, or be otherwise set aside in such a manner that they do not subsequently become divided among the members of the company.

Promoter.—A person who forms a joint stock company and assists to launch it. Promotion is not a term of law but of business, and includes a number of operations such as framing the prospectus, procuring the underwriting of the shares, and so on. A Promoter stands in a fiduciary relationship to the company which he is engaged in promoting, and may not derive profit out of the promotion without disclosing it to independent representatives of the company itself, and to the public (if the latter are asked to subscribe capital). The question as to who are and who are not the Promoters of any given company depends mainly upon the facts of each case.

Prospectus.—The document issued by or on behalf of a company appealing to the public to subscribe for its shares or debentures. Various matters must legally be disclosed in a Prospectus in order that a prospective applicant may know the nature of the concern in which he is investing. (See Companies (Consolidation) Act, 1908, sec. 81.)

Proxy.—A person appointed to vote at a meeting on behalf of

another person who would have been entitled to vote if he had been present. The instrument appointing a Proxy must ordinarily be in writing. Voting by Proxy is only permissible if allowed by the regulations of the body of which a meeting is to be held.

Quarter Days are as follows: *England*—March 25 (Lady Day), June 24 (Midsummer), September 29 (Michaelmas), and December 25 (Christmas). *Scotland*—February 2 (Candlemas), May 15 (Whitsunday), August 1 (Lammas), and November 11 (Martinmas).

Quorum.—The minimum number of members of any given body required to be present at any stated meeting or proceedings in order that the acts done or to be done may be valid. The Quorum requisite for members' and directors' meetings of bodies or companies is usually prescribed by the regulations of the particular undertaking.

Rate of Exchange.—The price, in the money of one country, of the money of another country. In this country the currencies of other countries are quoted in one of two ways. 1. The price of a unit of the foreign currency (*e.g.* one U.S. dollar) is quoted in British currency (*e.g.* 49½*d.* to 60*d.* per U.S. dollar). 2. The number of units of foreign currency are quoted which will be given in exchange for one pound sterling, *e.g.* "25·22 francs" may be quoted as the equivalent of £1. The currency of Germany and the countries belonging to the Latin Union are quoted on the London money market at a rate which expresses the amount of foreign currency obtainable for £1, *e.g.* 180·50 German marks, 50·75 francs (French, Belgian, or Swiss), 70·40 Italian lire. The U.S. and Canadian currencies, on the other hand, are quoted in both the above ways, *e.g.* 60*d.* per dollar, or four dollars per £1. Russian currency was quoted, in pre-war days, as so many pence per rouble (*e.g.* 24½*d.*) or so many roubles for £10 (*e.g.* 98·50). Dutch currency, and those of Scandinavia and Denmark, are quoted at so many Dutch gulden or Norwegian, Swedish, or Danish kroner to the £1 (see pp. 686-688).

Raw material.—The commodities obtained (frequently in bulk) in an unadapted condition, for use in the manufacture of "finished" articles.

Real "Estate" or "Property".—Lands, whether of freehold or copyhold tenure, including the buildings thereon. (See "Personal Property.")

Realized Profits.—Profits which have been converted into cash in hand, or otherwise reduced to a tangible form. *Example*.—If investments appreciate in value over and above their original cost the amount of such appreciation is an "unrealized" profit until the investments are sold, when it becomes a "realized" profit. It is usually unwise for a company to pay dividends out of unrealized profits; it is generally advisable to postpone the distribution of profits of this nature until such time as they have been realized.

Rebate.—An allowance; in banking an allowance of interest (or discount) made to the party liable upon a bill previously discounted with a banker, upon the payment of the bill before its maturity by the party liable upon it.

Receipt.—See "Voucher."

• **Receiver**.—A person appointed by the Court in an action, or by mortgagees in various cases to take possession of property, either for its preservation, or to collect the revenue arising from it.

• **Reconciliation Statement**.—See Chapter IV, "The Cash Book."

Reconstruction.—A financial term expressing the reorganization or Reconstruction of a joint stock company. A company frequently

desires to obtain fresh funds from its members, but, owing to the fact that the shares of the company are fully paid it is found to be impossible to impose an assessment upon its members directly. In such a case a Reconstruction usually ensues upon the following lines: 1. That the existing company shall sell its undertaking to a new company in exchange for a given number of *partly paid-up* shares in the new company, *e.g.* £1 shares credited as 17s. 6d. paid. 2. That such partly-paid-up shares in the new company shall be distributed by the old company *pro rata* among its members. Members accepting these new shares in exchange for their holdings in the old company naturally become liable to pay up the liability on them (*e.g.* the 2s. 6d. per share unpaid in the case of the £1 share credited as 17s. 6d. per share mentioned in the preceding paragraph). 3. Members who are unwilling to pay the newly-imposed liability can refuse to accept the shares, and can serve a notice of dissent upon the company, requiring, either that the scheme shall not proceed, or that their interest in the old company shall be redeemed. In practice it usually happens that the majority of companies which are unsuccessful prior to their reconstruction are equally unsuccessful afterwards; the additional capital afforded by a Reconstruction being usually inadequate. The right of "dissent" attaches indefeasibly to the holder of shares in a company which is about to be reconstructed, but its product, in the way of the price paid by the company to the dissident for his interest is frequently insignificant; a farthing a share is not an uncommon price in many cases.

Record Book.—The minute book kept by a trustee in bankruptcy proceedings, or by the liquidator in a compulsory winding up of a limited company.

Referee in Case of Need.—The drawer of a bill of exchange and any indorser may insert thereon the name of a person who, if the bill be dishonoured, will protect or pay it for the honour and on behalf of the person inserting the referee's name. Such a person is termed a "Referee in Case of Need."

Registered Office (of a company).—Every company incorporated under the *Companies (Consolidation) Act*, 1908, is obliged to have a "registered office," the situation of which must be notified to the Registrar of Joint Stock Companies.

Remittance.—The sending of money; also applied to the sum of money which is sent or "remitted."

Reserve Liability.—A limited company may resolve that any portion of the uncalled liability on its shares shall only be capable of being called up in the event of the company being wound up. Such "Reserved Liability" then becomes incapable of being dealt with or mortgaged by the company during its life, and is preserved for the benefit of the creditors generally in the event of the company being subsequently wound up. Many leading banks have so resolved to "reserve" portions of their uncalled capital, the amount of which is usually proportionately large in comparison with the paid-up capital.

Rupee.—The standard silver coin of British India. The Rupee weighs 180 grains (165 gs. fine silver and 15 gs. of alloy). The present exchange value of the Rupee is about 10 to the £1, *i.e.* more than its official value. The contraction Rx. is used to denote 10 Rupees, a "Lac" of Rupees=100,000, and a "Crore" of Rupees=100 lacs. A Rupee consists of 16 annas, 64 pice, or 192 pie.

STABLE EXCHANGE COUNTRIES.*

Country.	Monetary Unit.		Sub-divisions of the Unit.	Approximate Rate to be used in Book-keeping for Conversion Purposes.	Remarks.
	Name of Unit.	Value in English Money.			
France.....	Franc	25-22 fcs. = £1	100 centimes = 1 franc	25 francs to the pound	The Latin Union These figures refer to the gold peseta, the actual currency is largely paper, standing frequently at a lower rate, <i>c.g.</i> 20-30 pesetas per £.
Belgium.....	Lira	25-22 lire = £1	100 centesimi = 1 lira	25 lire to the pound	
Switzerland ..	Drachma	25-22 dr. = £1	100 lepta = 1 drachma	25 drachmas (gold) to the pound	
Italy.....					
Greece					{ Scandinavian monetary Union. These figures are for the gold milreis. The actual currency is largely paper, the value of which is frequently lower, <i>c.g.</i> 47d. per milreis.
Spain.....	Peseta	25-22 p. = £1	100 centimos = 1 peseta	25 pesetas to the pound	
Germany.....	Mark	20-42 m. = £1	100 pfennig = 1 mark	20 marks to the pound	
Austria.....	Crown (Krone)	24-02 kr. = £1	100 heller = 1 crown	54 crowns to the pound	
Holland.....	Guilder	19-10 fl. = £1	100 cents = 1 florin	12 florins to the pound	{ Prior to 1904 the currency was the <i>silver</i> Mexican dollar. It is worth about 2s., but fluctuates largely. The silver Mexican dollar circulates widely in the East.
Russia.....	Rouble	94-50 rs. = £10	100 copecks = 1 rouble	94 roubles to the pound	
Sweden.....	Crown	18-16 kr. = £1	100 öre = 1 crown	18 crowns to the pound	
Norway.....	(Krone)				
Denmark					Turkish pound = 18 shillings sterling Egyptian pound = £1 0s. 8d. sterling 10 rupees to the pound (2s. per rupee) 1 yen = 2s. 0½d. 1 dollar = 49½d. sterling
Portugal	Milreis	4-30 m. = £1	1000 reis = 1 milreis	1 milreis = 53 pence	
Turkey	Turkish Pound	£1.1 = 18s. 0½d. stig.	100 piastres = £1.1		
Egypt.....	Egyptian Pound	£E.1 = £1 0s. 3d. stig.	100 piastres = £E.1		
British India.....	Rupee	10 rupees = £1	16 annas = 1 rupee		1 dollar = 2s. 0½d. 1 dollar = 49½d. sterling
Japan.....	Yen	20 yen = £2 1s.	100 sen = 1 yen		
United States and Canada	Dollar	\$1-56 = £1	100 cents = 1 dollar		
Mexico.....	Dollar (Peso)	1 gold peso = 24.58 per o	100 cents = 1 dollar	1 dollar = 2s. 0½d	

FLUCTUATING EXCHANGE COUNTRIES.*

Country.	Monetary Unit.		Subdivisions of the Unit.	Actual Currency.	Approximate Value.	Remarks.
	Name.	Nominal Value.				
Argentina {	Dollar (Peso)	5.04 pesos = £1	100 centavos = 1 peso	Gold or notes payable in gold	1 peso (gold) = 4s.	{ Gold money (or notes) and depreciated paper are found side by side, accounts often being kept concurrently in both kinds of currency.
	"	5.01 pesos = £1	100 centavos = 1 peso	Depreciated paper	1 peso (paper) = about 1s. 9d.	
Brazil	Milreis	8.9 milreis = £1	1000 reis = 1 milreis	{ Notes, some convertible into gold at 1s. 4d. per milreis; others inconvertible; all depreciated below original value of milreis	1 milreis = 1s. 8d. to 1s. 5d.	{ Convertible notes are issued by the Government against gold deposited; inconvertible notes form large part of currency. Both of equal value, recently (1871) about 1s. 4d.
Canton {	Dollar (Peso)	5.34 pesos = £1	100 centavos = \$1	Depreciated paper	£1 = 10d. to 1s.	{ Vary with the price of metallic silver. The Shanghai tael is not a coin but a weight of silver.
	Tael	\$1 = 2s. 4½d.	100 cents. = \$1	Silver	\$1 = 2s. 4d. to 2s. 6d.	
Hong Kong	Dollar	\$1 = 1s. 9½d.	100 cents. = \$1	Silver	\$1 = 1s. 9d. to 1s. 10d.	

The British sovereign is the monetary unit in Australia, New Zealand, South Africa and in most British colonies; it passes current in Canada and British India at \$4.866 and Rs. 15 respectively. Most Asiatic countries have, from time immemorial, had a silver currency, but owing to the great fall in the value of silver in modern times, a gold basis has been adopted in British India and Japan. In China the currency is silver, both coin and bullion, which fluctuates in value according to its metallic contents. The currency of many South American republics, *e.g.* Bolivia, Colombia and Ecuador, is silver or depreciated paper; Peru, Uruguay and Costa Rica have at present a gold standard. Drafts on countries possessing a fluctuating currency are frequently drawn payable at the current equivalent of some stable unit, *e.g.* the pound sterling, U.S. dollar, the franc, or the mark.

* The rates quoted in these tables are normal pre-war rates. At the present time it is hopeless to attempt to quote current rates. These can be found by reference to the daily press.

COURSE OF EXCHANGE.

LONDON, May 19, 1914.

The following are two specimen tables—one pre-war and the other post-war—of the rates quoted in London for bills or cheques payable at the places mentioned:—

			Explanation.
Amsterdam, etc., cheques	12.21 $\frac{1}{2}$	12.21 $\frac{1}{2}$	Florins and stivers to £1
„ 3 mos.	12.4 $\frac{1}{2}$	12.5	„ „ „
Antwerp and Brussels, 3 mos.	25.55	25.60	Francs and centimes to £1
Hamburg, 3 mos.	20.66	20.70	Marks and pfennigs to £1
Berlin, etc., 3 mos.	20.66	20.70	„ „ „
Paris, cheques	25.17 $\frac{1}{2}$	25.20	Francs and centimes to £1
„ 3 mos.	25.35	25.40	„ „ „
Marseilles, 3 mos.	25.36 $\frac{1}{4}$	25.41 $\frac{1}{4}$	„ „ „
Switzerland, 3 mos.	25.42 $\frac{3}{8}$	25.47 $\frac{3}{8}$	„ „ „
Austria, 3 mos.	24.36	24.40	Kronen and heller to £1
St. Pet'g and Moscow, 3 mos.	24 $\frac{1}{2}$	24 $\frac{5}{8}$	Pence to one rouble
Genoa, 3 mos.	25.58 $\frac{3}{4}$	25.63 $\frac{3}{4}$	Lire and cents to £1
New York, 60 days	48 $\frac{9}{16}$	48 $\frac{11}{16}$	Pence to one dollar
Madrid, 3 mos.	44 $\frac{1}{16}$	44 $\frac{1}{16}$	Pence to one peso
Lisbon, 3 mos.	44 $\frac{1}{2}$	44 $\frac{1}{2}$	Pence to one milreis
Oporto, 3 mos.	44 $\frac{1}{2}$	44 $\frac{1}{2}$	„ „ „
Copenhagen, 3 mos.	18.48	18.52	Kroner and ore to £1
Christiania, 3 mos.	18.48	18.52	„ „ „
Stockholm, 3 mos.	18.48	18.52	„ „ „

July 3, 1919.

			Explanation.
Amsterdam, cable	11.78 $\frac{1}{2}$	11.80 $\frac{1}{2}$	Florins and cents to £1
Belgium, cable	30.92	31.02	Francs and centimes to £1
Paris, cable	29.80	29.90	„ „ „
„ 3 mos.	30.21	30.31	„ „ „
Marseilles, 3 mos.	30.21	30.31	„ „ „
Athens, cable	24.30	24.40	Drachmas to the £1
Switzerland, cable	24.90	25.00	Francs and centimes to £1
„ 3 mos.	25.30	25.40	„ „ „
Helsingfors, cable	56.50	57.50	Finnish marks to £1
Genoa, cable	35.80	36.20	Lire and cents to £1
Rio de Janeiro, cable	14 $\frac{1}{4}$	14 $\frac{3}{4}$	Pence to one milreis
Spain, cable	22.98	23.08	Pesetas and cents to £1
„ 3 mos.	50	50 $\frac{1}{2}$	Pence to five pesetas
Lisbon and Oporto, cable	30 $\frac{1}{2}$	30 $\frac{1}{2}$	„ one milreis
Copenhagen, cable	19.55	19.65	Kroner and ore to £1
Christiania, cable	18.40	18.50	„ „ „
Stockholm, cable	17.93	18.03	„ „ „
Buenos Aires, cable	50 $\frac{1}{2}$	51 $\frac{1}{4}$	Pence to one dollar

Salvage.—Compensation to those who have by their exertions saved a ship or cargo from maritime perils. The term is also used to denote the things so “salved” or “saved.”

Sample.—A small quantity of goods or articles submitted by a seller to a possible or prospective purchaser in order that the latter may have knowledge of the nature of the goods or articles offered for sale.

Sans Recours.—A phrase which the indorser of a bill may append to his indorsement; if added, it suffices to discharge the bill (*i. e.* to make it negotiable), but if the bill is dishonoured the indorser “Sans Recours” cannot be sued upon it personally as is the case with an ordinary indorser.

Scrip.—A term used, often somewhat loosely, to denote certificates representing investments. In Great Britain nearly all securities are either inscribed or registered. In America and on the continent “bearer” bonds and shares are almost universal. (See Chap. XVI, “Joint Stock Companies.”)

Seal.—A company incorporated under the *Companies (Consolidation) Act*, 1908, must possess a common Seal, and this is characteristic of almost all incorporated companies. The common Seal is the official signature of the company; it is entrusted to the directors, and when affixed to a document it is usually attested by the signatures of the directors (or a prescribed number of them) present when it was affixed. Two or three locks are usually affixed to the Seal of a company, the key of one of which is retained by the secretary of the company, and the others remain in the possession of those directors who are detailed for the purpose. A document sealed and delivered by an *individual* is in law termed a “deed”; it is the highest form of written document known to English law. A document to which a *company's* seal is affixed usually amounts in law to a deed, but not in every case.

Seal Register.—A book, frequently kept by companies, recording brief details of the documents to which the common seal of the company has been attached.

• **Securities.**—A term used to denote investments or the documents representing them.

Set-off.—A counter claim.

Share Warrants to Bearer.—Share certificates issued by a company stating that *the bearer* of them is entitled to a stated number of shares in the company's capital. They pass from hand to hand without registration, or the need of any transfer deed, and are to this extent convenient; on the other hand, they cannot be replaced if lost, and they require to be stamped with stamp duty on three times the nominal value of the stock. The opportunities they offer for misuse for fraudulent purposes are also considerably greater than is the case with registered certificates.

Ship.—The ownership of a British Ship is by custom divided into 64 equal “shares,” any number of which may be held by a particular owner.

Simple Contract.—An agreement made by word of mouth or embodied in a writing which is not under seal (*i. e.* not a “deed”). A contract or agreement of this description requires consideration to support it, but, if consideration be present, it is legally valid. Certain specified forms of Simple Contract require to be embodied in writing, or to be signed by one or more of the parties to them, but, apart from these special requirements, “Simple” Contracts may be.

either verbal or written. The phrase "parol contracts" is often used as a substitute for "Simple Contracts," and has the same significance; it does not refer (as the word "parol" would suggest) only to verbal contracts, but also to those which are written, but are not embodied in the shape of a deed.

Single Ship Company.—A joint stock company incorporated to acquire a single ship, as distinct from a fleet of ships.

Sinking Fund (commercially).—A sum set aside periodically out of the profits of a concern, and invested outside the business, in order to accumulate a certain sum at a given date for some specified purpose, *e. g.* the redemption of debentures. The interest arising out of the Sinking Fund investments is itself periodically reinvested and allowed to accumulate with the periodical contributions of principal. With regard to the borrowings of States and Municipalities the phrase "Sinking Fund" is applied to the periodical amounts applied either in paying off portions of the loan or in the purchase (for the purpose of cancellation) of the bonds or stock in the open market, thereby gradually extinguishing the indebtedness.

Slip.—A memorandum employed in marine insurance, issued by the underwriter, setting forth briefly the terms of the formal policy which is in course of preparation.

Specialty.—A contract by deed. (See "Deed.")

Statement.—An account rendered at stated intervals. The dates, particulars, and amounts of all goods delivered to the recipient of the Statement since the date of the last settlement are set out, together with any credits which may have accrued. The balance of the Statement shows the net amount due to date.

Statutes of Limitation.—A series of Acts, dating back to early days, wherein the period within which actions may be brought are fixed. (See "Limitation of Actions.")

Stocks.—See "Investments."

Stoppage in transitu.—An unpaid seller of goods has the right to stop them in transit, and to retain possession of them until they are paid for. Goods are deemed to be in transit until such time as the buyer or his agent has actually taken possession of them. The right does not exist except in cases of insolvency.

Subpoena.—An order issued by a competent court directing the attendance of any specified person before the court, usually for the purpose of giving evidence.

Surety.—One who becomes "bond" or "guarantee" for another.

Surrender Value.—The amount which will be paid by an insurance company upon the surrender to it (for cancellation) of a policy issued by it. The regulations regarding the Surrender Value of a given policy are frequently contained in the policy itself. In the case of life policies the Surrender Value is commonly small, being frequently about one-third of the total amount of the premiums paid upon it, plus the cash value of any bonus additions should the policy be a "with profit" one. Life Policies can usually be sold by auction for slightly more than their Surrender Value. In arriving at the Surrender Value of a life policy the usual practice of the British companies is to strike one-third off the reserve value. These reserves are usually calculated upon a 3 per cent. basis, whereas, in the open market, reversions approximate more nearly to valuations based upon 4 to 5 per cent. interest, as a general rule. In the majority of cases no policy of life insurance carries any Surrender Value until the premiums for three complete years have been paid.

Talon.—The ticket or certificate attached to a bond entitling the holder of it to a further supply of interest coupons when those originally provided have all matured. (See "Coupon.")

Tare.—See Chap. XIV.

Taxation of Bills of Costs (Legally).—The examination by officers of the law courts of the Bills of costs rendered by solicitors to their clients or to their opponents in litigation. The "**Taxing Master**" (as the officer is called) has authority to disallow improper or incorrect charges.

Terms of Sale or Payment employed by traders are frequently expressed or contracted as follows: *C. I. F.* = cost, insurance and freight (meaning that the price quoted includes insurance and freight charges); *C. O. D.* = Cash on Delivery; *F. A. S.* = free alongside the ship; *F. O. B.* = free on board the ship; *Prompt Cash* means variously from 1 to 5 days credit; *5 per cent. within 1 month* indicates that if paid within one month a discount of 5 per cent. will be allowed.

Testator.—See "Will."

Tontine.—An annuity with benefit of survivorship among the subscribers or nominees. Not now met with in this country.

Treasury Bills.—Bills, usually payable at three or six months after their date, sold by the Treasury, usually by tender, in order to raise funds temporarily for the Government. They bear no interest, but are issued at a discount. (See Note B, p. 204.)

✓ **Trust, Trustee.**—Where a person holds the ownership of property on behalf of another person the property is said to be held "in trust," and the holder of property "in trust" is termed a "Trustee."

Turnover.—A trader's total sales for a given period.

Voucher.—A written acknowledgment or "receipt" for money paid; any documentary evidence put forward to support the accuracy of accounts. A voucher for an account of £2 and over requires a penny stamp, which must be cancelled.

Warranty.—A guarantee or a stipulation in a contract.

Waste Book.—A rough memorandum book in which, formerly, a trader's transactions were entered as they took place; the "Journal" was written up from the information afforded by the Waste Book. The book is scarcely ever met with now-a-days except in old-fashioned text-books. In banks, at the present day, the books in which the cashiers' receipts are classified for collection purposes (*e.g.* "town cheques," "country cheques," etc.) are sometimes termed **Waste books**; they are usually written up by clerks seated behind the receiving cashiers.

Watered Stock.—A phrase signifying the creation and issue of additional stock by a body which has already made issues of stock for cash, the additional stock being issued without any additional payment in cash, *e.g.* as a "bonus."

Will.—The declaration of a testator's directions in regard to the disposal of his property after his decease. Wills must be (1) in writing; (2) signed by the person making it; (3) witnessed by two persons present at the same time.

CHAPTER XXX

SUPPLEMENTARY EXERCISES

CHAPTER I

Exercise 1E.—From the following list of transactions write up the Ledger, preparing Trading and Profit and Loss Accounts, and a Balance Sheet on their conclusion. *Transactions of Herbert Myers.* 1910. Sept. 1, started business with cash £50; Sept. 2, paid cash for goods purchased at an auction £30; Sept. 6, bought from Brown & Co. goods on credit £60; Sept. 7, sold goods for cash £25; Sept. 8, paid expenses in cash £5; Sept. 9, sold goods to Rogers & Co. on credit £50; Sept. 14, received from Rogers & Co. cash on account £40. *Note:* Stock of goods in hand at Sept. 14, 1910, was valued at £40.—*Answer.* Net Profit £20; Final Capital £70.

Exercise 1F.—Enter the following transactions in a Ledger, preparing Trading and Profit and Loss Accounts, and a Balance Sheet at their conclusion. *Transactions of A. Miles.* 1910. Oct. 1, started business with cash £50, stock of goods £100, and owing to Holmes Bros. £45; Oct. 3, bought from Holmes Bros. goods on credit £30; Oct. 4, sold for cash goods £45; Oct. 5, paid in cash salaries £5, office expenses £3 10s.; Oct. 6, sold to Ray & Hill on credit goods £60; Oct. 10, bought goods for cash £10; Oct. 11, received from Ray & Hill in cash £60; Oct. 12, paid to Holmes Bros. on account cash £50. *Note:* the stock of goods in hand on Oct. 12, 1910, was valued at £60.—*Answer.* Net Profit £16 10s.; Final Capital £121 10s.

Exercise 1G.—Enter the following transactions in a Ledger, preparing therefrom a Trial Balance, a Trading Account, a Profit and Loss Account, and a Balance Sheet. *The transactions of Charles Robbins were as follows:*—1911. Jan. 2, started in business as a sugar merchant with £500 cash; Jan. 3, bought a consignment of sugar from Roy & Co. on credit £550, paid them in cash on account £275; Jan. 6, paid in cash sundry office expenses £10; Jan. 9, sold half the sugar bought from Roy & Co. on Jan. 3 at auction for £305 cash; Jan. 10, sold the remainder of the sugar bought from Roy & Co. to Charles Hay on credit for £325; received from C. Hay £175 cash on account; Jan. 14, paid, in cash, landing and warehouse charges on the sugar bought from Roy & Co. £15; Jan. 18, paid Roy & Co. balance due to them £275.—*Answer.* Net Profit £55; Final Capital £555.

Exercise 1H.—Enter the following transactions in a Ledger, preparing Trading and Profit and Loss Accounts, and a Balance Sheet at their conclusion. *Transactions of John Wild.* 1910. Nov. 1, started in business as a cycle dealer; Nov. 2, bought on credit from the Everwear Manufacturing Co. Ltd., 10 "Express" bicycles at £5 10s. each; Nov. 3, sold for cash 1 Express bicycle

£6 16s. 6d.; Nov. 4, sold to R. Hay on credit 2 Express bicycles at £7 7s. each; Nov. 5, sold for cash 2 Express bicycles at £6 18s. 6d. each; Nov. 7, paid cash for expenses £2 13s.; Nov. 8, paid cash for advertisement in local paper £1; Nov. 9, sold to W. Mear on credit 3 Express bicycles at £7 each; Nov. 10, received cash from R. Hay £14 14s.; Nov. 11, received cash from W. Mear on account £15; Nov. 12, paid the Everwear Mfg. Co. Ltd. cash on account £25. *Note:* Value the 2 bicycles remaining on hand on Nov. 12, 1910, at cost price, viz. £5 10s. each.—*Answer.* Net Profit £8 14s. 6d.; Final Capital £8 14s. 6d.

CHAPTER III

Exercise 3E.—From the following Balance Sheet open a new Ledger:—

BALANCE SHEET.

December 31, 1906.

LIABILITIES.			ASSETS.		
		£			£
J. Frost	} Sundry	151	Cash	} Sundry	45
T. Wilson		49	Bank		150
R. Ford		75	T. Wells		215
Capital	Creditors	670	S. Reeves	Debtors	96
			Stock		439
		<u>£945</u>			<u>£945</u>

(*Auctioneers' Institute of the U.K.; Preliminary, 1907.*)

Exercise 3F.—From the following transactions make out F. Pearson's account:—1906. Oct. 1, I owe F. Pearson £257; Oct. 4, I pay £200; Oct. 5, he sells me goods £43; Oct. 7, I sell him goods £38; Oct. 10, I buy goods of him £71; Oct. 14, he buys goods of me £32; Oct. 16, he sells me goods £29; Oct. 17, he returns goods £6; Oct. 25, I buy goods of him £96; Oct. 27, I sell goods to him £400; Oct. 28, he pays me cash £150; I receive bill from him (*credit F. Pearson*) £250; Oct. 31, he buys goods of me £18. (*Auctioneers' Institute of the U.K.; Preliminary, 1907.*)—*Answer.* Credit Balance of Account £184.

Exercise 3G.—On Dec. 1, 1905, H. Lloyd commenced business with a capital of £500 in cash. On this date he paid the following sums:—Shop fittings £50, purchase of goods £200, one quarter's rent in advance £20. Open the necessary Ledger accounts to record the above; post the following transactions direct to the Ledger; balance the accounts as on December 31, 1905, and bring down the balances:—1905. Dec. 2, sold goods to W. Hunt £140; Dec. 4, purchased goods from R. Johnson £20; Dec. 11, purchased goods from H. Hall £150; Dec. 16, sold goods to E. Jones for cash £20; Dec. 20, sold goods to W. Silver £50; Dec. 21, received from W. Hunt cash on account £10; Dec. 22, paid R. Johnson's account, less 5 per cent. discount. (*Royal Society of Arts; Elementary, 1906.*)—*Answer.* Cash Balance £241; Credit Purchases £170; Credit Sales £190.

Exercise 3H.—Enter the following transactions in Charles Harris's Ledger, and prepare a Trial Balance upon their completion:—1910,

Dec. 1, started in business as a motor car dealer with £500 cash; Dec. 2, bought from Gremaud et Rousselet one "Gloria" 30 h.p. No. 35a car on credit for £605; Dec. 3, sold to R. Stevens one "Gloria" 30 h.p. car for cash £650; Dec. 5, paid in cash freight, shipping, and landing charges on "Gloria" car £6 16s. 8d.; Dec. 7, paid Gremaud et Rousselet cash £605; Dec. 9, bought from Holmes & Raeburn, Ltd., two 20 h.p. No. 18 cars on credit at £325 each; Dec. 10, sold to Sir O. Glendower one "Holmes & Raeburn" 30 h.p. No. 18 car for cash £375. Dec. 12, sold to Mrs. Claude Crawley one "Holmes & Raeburn" 20 h.p. No. 18 car on credit £390; Dec. 13, Paid Holmes & Raeburn cash £325; Dec. 16, paid in cash freight, shipping, and landing charges on two "Holmes & Raeburn" cars £12 2s. 8d.; Dec. 20, paid in cash expenses £5.—*Answer.* Trial Balance Totals £2240.

Exercise 3r.—On Sept. 1, 1910, I had cash at the Bank £1,200, and C. Jones owed me £800, my capital being thus £2,000. On Sept. 2 I bought from Hall Bros. a quantity of iron ore for £3,500, less 10 per cent. Trade Discount, paying them £1,000 by cheque on account; on Sept. 3 I paid by cheque landing and storage charges on the iron ore £65, and the same day I sold half the ore for £1,850 by auction, receiving a cheque for that amount and banking it. On Sept. 6 I sold a further quantity of iron ore to Jebb & Co. for £1,200, less 10 per cent. Trade Discount, and 5 per cent. Discount for cash, Jebb & Co. handing me their cheque the same day; this cheque was paid by me into my bank. On Sept. 8 I sold the remainder of the iron ore to Wild & Co. for £1,000, less 7½ per cent. Trade Discount, payment for same to be made one month after delivery; on Sept. 10 I paid Hall Bros., by cheque, further on account £1,000; C. Jones paid me, by cheque, £700 on Sept. 10 which I paid into my bank; on Sept. 12 I drew a cheque for sundry expenses £20. Write up my Ledger and prepare Profit and Loss Account and Balance Sheet.—*Answer.* Net Profit £566; Final Capital £2566.

Exercise 3r.—From the following particulars write up C. Ridgway's account in my Ledger:—1910. Dec. 1, C. Ridgway owes me £10; Dec. 2, I sell C. Ridgway goods on credit £30; Dec. 3, C. Ridgway pays me in cash £5; Dec. 5, C. Ridgway sells goods to me on credit £6; Dec. 6, received cash from C. Ridgway £28; I allow C. Ridgway discount £1; Dec. 7, C. Ridgway buys goods of me on credit £10; Dec. 8, I buy goods of C. Ridgway on credit £50; Dec. 9, I pay cash to C. Ridgway £39; C. Ridgway allows me discount £1; Dec. 10, I sell C. Ridgway goods on credit £25.—*Answer.* Debit Balance of Account £25.

CHAPTER IV

Exercise 4E.—Make out a Cash Account:—1906. Jan. 1, capital in cash £500; Jan. 7, cash sales £50; Jan. 12, sold goods for cash £19 1s.; bought goods for cash £47 2s.; Jan. 18, H. Long pays me £63 5s.; Jan. 20, I pay F. Smedley £329; Jan. 23, I pay W. Thomas £137 0s. 10d.; Jan. 25, I draw for private expenses £10; Jan. 27, I receive from R. Judson £37 5s.; Jan. 29, sold goods for cash £47 2s.; Jan. 31, F. Smith pays me £8 5s.; Jan. 31, paid wages £10; Jan. 31, paid trade charges £4 7s. 6d.; Jan. 31, paid rent £15. (*Auctioneers' Institute of the U.K.; Preliminary, 1907.*)—*Answer.* Cash Balance £172 7s. 8d.

Exercise 4F.—From the following particulars write up my Cash Book, with separate columns for “Bank” and “Cash” transactions, and balance it as on Dec. 15, 1910 :—1910. Dec. 1, Balance at Bank £100; drew from bank for office cash £5; Dec. 2, paid by cheque to C. Lemon & Co. £12 10s.; Dec. 3, received from V. Charteris by cheque (paid to bank) £10 10s. and in cash (placed in office cash) £20; Dec. 5, paid from office cash for travelling expenses £2; Dec. 6, paid from office cash for clerks’ salaries £8; Dec. 7, paid from office cash into bank £10; Dec. 8, received from C. Child by cheque (paid to bank) £30 10s. and in banknotes (paid to bank) £25; Dec. 9, paid H. Smith (by cheque £5, and in cash £1 5s.) £6 5s.; Dec. 10, received from S. Cunningham cheque for sundry goods sold by him at auction on my behalf, paid same to bank £32 5s.; Dec. 12, paid by cheque to R. Leslie for repairs to office furniture £2 10s.; Dec. 13, paid Evans (by cheque £6 10s., in cash £1) £7 10s.; Dec. 14, drew from bank for office cash £5; paid W. Douglas, by cheque, on account £12 10s.; Dec. 15, received from Noel & Co. by cheque £15 10s. (paid to bank) and in cash £5 (placed in office cash).—*Answer.* Balances Dec. 15, 1910: Bank £174 15s.; Cash £12 15s.

Exercise 4G.—Enter in a Cash Book, with Discount Columns, the following transactions of a business firm. Then balance Cash and Discount. No Journal required :—1909. Jan. 1, the firm has in hand £179 15s. 4d.; Jan. 2, cash sales for the day £13 11s. 9d.; Jan. 5, pay for office expenses £3 7s. 11d.; Jan. 12, T. Wyld settles his a/c £82 4s., less discount allowed £1 2s. 9d.; Jan. 15, discounted with Fry & Co. bills amounting to £250, less discount charged £3 10s.; Sundry cash purchases £5 6s. 7d.; Jan. 16, my acceptance due this day duly met £36 2s. 9d.; Jan. 18, forwarded to S. Williams the amount of his a/c £300, less discount allowed £7 10s.; Jan. 20, a composition of 12s. 6d. in the £ is made by Philips, I receive my dividend on £64, £40; Jan. 25, various amounts paid in by debtors £27 15s. 9d., less discount allowed £1 7s. 9d.; withdrew for private expenses £10; Jan. 26, I discharge debts to creditors £17 10s. and am allowed a rebate of 5 per cent.; Jan. 27, Wilson & Co., in settlement of debt of £150, pay this sum to me, less discount £2 10s.; Jan. 30, amount forwarded by collector: R. Brown’s a/c £15 19s. 9d., T. Smith’s a/c £16 17s. 4d., Pinnock & Co.’s a/c £14 13s. 3d., less collector’s expenses £4 7s. 9d.; monthly expenses paid £13 18s. 9d.; salaries paid £18 14s. 3d.; received rent for part of premises let £4 15s.; monthly rent and taxes paid amounting to £14 17s. 4d. (*College of Preceptors; Junior, Midsummer, 1909.*)—*Answer.* Cash Balance £371 3s. 10d.; Discount allowed £5 0s. 6d.; Discount received £8 7s. 6d.

Exercise 4H.—Messrs. Brown, Jones and Robinson keep their Cash Book with a “Discount and Allowances” Column on each side (Debit and Credit), and they pass all their cash transactions through the bank, their Cash Book thus being (as it should be) an elaboration of their Bank Pass Book. Give the ruling of their Cash Book, and enter up therein the following illustrative transactions :—1903. Jan. 1, balance at bank brought down at date £137 19s. 7d.; withdrawn from Deposit Account and paid into Current Account £500; Jan. 3, paid Edward Smith’s account amounting to £400, less 2½ per cent. discount for cash; paid Gresham Land Company one quarter’s rent of offices £50; Jan. 15,

received from William Thompson payment of his monthly account, less $1\frac{1}{4}$ per cent. discount for cash, £120; March 2, Henry Marston, who owes £5 10s. 4d. remits a cheque in settlement for £5 10s., write off the difference 4d.; April 1, Paid Gresham Land Company one quarter's rent, less income tax at 1s. 2d. in the £1, on the annual rental (£200) £50; June 30, rule up the Cash Book and bring down the Bank Cash Balance at July 1, 1903. (*Institute of Bankers; Preliminary, April, 1904.*)—*Answer.* Cash Book Balance £283 12s. 11d.; Discount allowed £1 10s. 4d.; Discount received £10.

Exercise 4I.—Make the following entries in John Smith's Cash Book, showing in each case the Ledger heading to which the respective items are posted:—1906, Jan. 1, balance to his credit at the bank £1,216 7s. 4d.; paid Lands Co., Ltd., one quarter's office rent Cheque 160, £75; received half-year's dividend £2,000 Queensland $3\frac{1}{2}$ per cent. Inscribed Stock, less tax at 1s. £33 5s.; Jan. 3, Bank Cheque Book, 200 cheques, 16s. 8d.; paid Thomas Beall income tax, cheque 161, £92 10s.; received payment of William Morrish's account £102 10s.; Jan. 4, paid Theophilus Simpson on account, Cheque 162, £100; Jan. 5, received from Arthur Jones for cash sale over the counter of 1 chest new season's Souchong tea, weighing net 126 lb., at 3s. per lb., £18 18s. Show also how these items are entered by the bank in John Smith's Pass Book, noting that Cheque 161 for £92 10s. has not yet been presented.

The bank Pass Book is headed:—

John Smith, Esq., in Account with the Bullion Bank, Ltd.

Dr.

Cr.

At the same time bring down the cash balances respectively appearing in each book (Cash Book and Pass Book) after the above entries have been duly made, remembering that in the case of the bank Pass Book Cheque 161 for £92 10s. is still outstanding, and is therefore not yet debited in the Pass Book. (*Institute of Bankers; Final, April, 1906.*)—*Answer.* Cash Book Balance £1102 13s. 8d.; Pass Book Balance £1195 3s. 8d.

Exercise 4J.—At Dec. 31, 1904, Edward Jones' Bank Balance, by his Pass Book, stood at £857 10s. 6d. to his credit; the following cheques, however, drawn by him had not been presented, and were consequently outstanding on Dec. 31, 1904:—No. 1769, William Thompson and Co., £204 6s. 8d.; No. 1772, Elihu Bowen, £125; No. 1773, Samuel Edwards, £15; while on the other hand, of the cheques paid in by him on that day, £350 8s. 9d. (a country one) had not been cleared, and therefore was not credited till some days after. Draw up a Reconciliation Account between Edward Jones' Bank Pass Book and his Cash Book, and state what his actual Cash Balance, as shown by his Cash Book, was at Dec. 31, 1904. (*Institute of Bankers; Preliminary, April, 1905.*)—*Answer.* Cash Book Balance £863 12s. 7d.

Exercise 4K.—At the time of balancing (Dec. 31, 1903) your Banking Account has been written up and balanced, showing a Credit Balance of £500, but cheques passed for payment before that date, amounting to £250, have not been cleared. On Dec. 31, 1903, you had also received a cheque for £20 from a customer in settlement of his account, and although you had dealt with that amount through your office Cash Book, you had omitted to pay the same into your Banking Account. Draw up a Reconciliation Account showing adjustments between your Cash Book and Bank Pass

Book. (*National Union of Teachers; Advanced, 1905.*)—*Answer.* Cash Book Balance £270.

Exercise 4L.—From the following particulars write up the Petty Cash Book of Albert Child and bring down the balance on Sept. 14, 1910. The Petty Cash Book is to be ruled containing analysis columns for (1) postages and telegrams, (2) housekeeper, fires and cleaning, (3) stationery and office sundries, (4) travelling expenses, (5) charitable donations, (6) subscriptions to newspapers and advertisements, (7) sundries, and (8) the usual "Ledger" columns:—1910. Sept. 1, drew from bank for petty cash £30; Sept. 2, paid for postages 3s., 2 bottles of ink 2s. 6d., stationery bought 2s. 9d.; Sept. 3, paid for telegram to Dublin 2s. 2d., postages 1s., subscription to the "Market Journal" 12s. 6d.; Sept. 5, paid for postages 6d., repairs to copying press (debit Repairs Account) 2s. 6d.; Sept. 6, paid for travelling expenses to Dover and back 18s. 6d., postages 1s., cost of search at Somerset House 1s., gratuity to porter 6d.; Sept. 7, paid donation to the "Cottage Homes Fund" 2s. 6d., postage 2s. 6d., cost of boxes for samples 5s. 6d.; Sept. 8, paid for cablegram to New York 15s., housekeeper, fires and cleaning to date £1 2s. 9d., travelling expenses 1s. 4d.; Sept. 9, paid for 1 copy "Trades Directory" £2 2s. (debit General Expenses Account); paid D. Reay, extra discount allowed him (debit Discount Account), £1 2s. 6d., postages 2s. 9d., electric light account to Aug. 31 (debit General Expenses Account) £1 9s. 8d.; Sept. 10, paid for stamp on power of attorney for bank (debit Legal Expenses Account) 10s., paid for telegram to Brighton and reply 3s. 6d.; Sept. 12, paid for cost of standing advertisement in the *Speaker* for 1 month £1, omnibus fares to Victoria Station and back 4d., telegrams 1s., postages 8d.; Sept. 13, paid for porter's wages to date (2 weeks at 23s.) £2 6s. (debit Wages Account); Sept. 14, paid commissioner's fee for attesting an affidavit 1/6 (debit Legal Expenses), postages 1s., telegrams 2s. 6d., bottle of gum for office use 8d., 1 gross office pens 4s. 6d.—*Answer.* Balance £15 13s. 11d.

Exercise 4M.—From the following particulars write up my Cash Book and Ledger, bringing down the balances of all accounts at their conclusion:—1910. Nov. 1, balance of cash at bank £100, cash in hand £20 = capital £120; Nov. 2, lent M. Wyse by cheque £5; Nov. 3, paid cash into bank £15; Nov. 10, paid by cheque rent of office for 1 quarter £20; Nov. 11, received cheque from Brown & Co. for fee for auditing their books (paid same to bank) £50; Nov. 19, M. Wyse repaid in cash £2; Nov. 21, paid cash for stationery purchased £1; Nov. 26, M. Wyse repaid in cash £3; Nov. 30, paid by cheque clerk's salary for 1 month £10; Nov. 30, received cheque from Holmes Bros. for professional work done for them (paid same to bank) £21.—*Answer.* Balances: Cash £9; Bank £151.

Exercise 4N.—From the following particulars prepare the Petty Cash Book of S. Fry, including analyses columns for the following classes of expenditure, viz. (1) Postage, (2) Telegrams and Cables, (3) Housekeeping and Cleaning, (4) Stationery, (5) Electric Light, including bulbs, (6) Advertisements, Donations, and Subscriptions, (7) Travelling Expenses, (8) Repairs, (9) Sundries, and (10) a "Ledger" column. Balance the Petty Cash Book as on Feb. 16, 1911. 1911. Feb. 1, Drew from the Bank for petty cash purposes £30; Feb. 2, paid postage 1s. 10d., and telegrams 3s. 6d.; Feb. 3, paid fares 1s. 2d., postage 1s. 6d., and telegrams 6d.; Feb. 4.

paid postage 3s. 6d.; Feb. 5, paid postage 10d., and housekeeper and cleaning £1 2s. 9d.; Feb. 7, paid postage 1s. 2d., and electric light bulbs 6s. 2d.; Feb. 8, paid telegrams 1s. 5d., repairs to electric bells 6s. 9d., postages 2s. 3d., and ink 6d.; Feb. 9, paid cost of new coal-scuttle 8s. 9d. (debit Furniture Account in "Ledger" column), and postages 1s.; Feb. 10, paid postage 2s. 4d., stationery 6s. 9d., and fares to Woolwich 3s. 4d., cost of advertisement in *Post Office London Directory* £1 10s., cost of standing advertisement in *Feathered World* £4 10s.; Feb. 11, paid telegrams 1s. 4d., and postage 3s. 9d.; cost of repainting name on office door 10s. 6d., fares to Ludgate Circus 4d., and cost of two dozen boxes for samples 4s. 2d.; Feb. 12, paid postage 1s. 9d., and telegrams 2s. 9d., cost of cable message to Fry & Lewisohn, New York £1 2s.; Feb. 14, paid donation to the Central Trade Protection Association 5s., and postage 1s. 9d., housekeeper's book and cleaning to Feb. 12, £1 7s. 3d., cost of new electric light bulbs 4s. 2d.; Feb. 16, paid telegrams 1s. 3d., postage 3s. 6d., and cost of cable message to Fry & Lewisohn £1 3s., fares to Chiswick 2s. 4d.—*Answer.* Balance of cash in hand, Feb. 16, 1911, £14 9s. 2d.

Exercise 40.—W. Rutherford is a trader who keeps the whole of his cash with his Bankers, the Union of London and Smiths Bank, Ltd. He pays all his receipts into his Banking Account, and makes all his payments by cheque. The following are his transactions for the month of February 1911:—Write up Cash Book, and balance it as on Feb. 28, 1911. Feb. 1, Balance at the Bank at this date £104 13s. 2d.; Feb. 3, received from M. Strain cash £4 10s. 9d.; Feb. 5, received from Shaw & Co. cheque £32 6s. 4d.; Feb. 8, paid by cheque to W. B. Shields £19 2s. 11d.; Feb. 10, received from Stratton Bros. cash £2 and postal order 3s. 6d., £2 3s. 6d.; Feb. 11, drew cheque in favour of M. Shillington £4 9s.; drew cheque for gas bill to 31.12.09, Westchurch Gas Company £3 17s. 11d.; Feb. 14, received from the Eastern Supply Stores, Ltd., their cheque £62 19s. 8d.; Feb. 17, paid by cheque to J. Webb £21 3s. 6d.; Feb. 19, received from the Great Eastern Railway Co. their cheque for compensation for goods damaged in transit £4 9s. 6d.; Feb. 23, received from McKeown and McAusland by cheque £17 14s. 2d.; drew cheque in favour of V. Turtle, collector of rates £8 0s. 4d.; Lent M. Meacher by cheque £5; Feb. 26, received from William Sloan, cash £4 10s. 9d. and cheque £10, £14 10s. 9d.; Feb. 28, paid by cheque M. Wilson, collector of taxes, for income-tax £6 19s. 3d.; M. Meacher repaid to me in cash £5; received from J. W. Reade, money order £1 10s. 9d. and bank note £5, £6 10s. 9d.; paid by cheque salaries for February £10 5s.—*Answer.* Bank Balance, Feb. 28, 1911, £176 0s. 8d.

Exercise 41.—B. Rackett is a trader who keeps part of his cash at his Bankers and part in his office cash box. Most of his transactions involve discount, to record which he employs discount columns in his Cash Book. From the following particulars prepare his Cash Book in "three-column" form, and balance it at the end of the month, and total the discount columns. 1910. Oct. 1, Balances in hand, cash £7 0s. 4d., at Bank £872 16s. 3d.; Oct. 2, paid to B. Nett by cheque £213 5s., discount £11 15s.; Oct. 4, received from C. Lett cheque for £39, allowing him £1 discount; Oct. 5, paid water rate in cash £3 11s. 3d., paid carpenter for odd

jobs 11s. 6d., paid woman for cleaning office 5s. 6d.; Oct. 6, drew £10 from Bank and placed it in the office cash box; Oct. 7, paid D. Sett from office cash £2 5s. 4d., being allowed discount 2s. 2d.; Oct. 9, received from E. Lyne cash, and put it in the cash box £15 7s. 2d., discount 12s. 10d.; Oct. 14, paid to F. Ascourt, cheque value £363 17s. 4d., discount £6 2s. 8d.; Oct. 17, received cheque from Doherty Bros. £22 16s., discount £1 4s.; Oct. 25, paid cheque to F. Handel £10 19s. 2d. net; Oct. 26, bought goods for cash (paid for out of cash box) £3 13s. 7d., paid fire insurance premium in cash 6s. 3d.; Oct. 31, drew cheque for office salaries £10 12s. 6d., paid into Bank from office cash £15, drew cheque for self, for house-keeping £25.—*Answer.* Balances, Bank £315 18s. 3d.; Cash £6 14s. 1d.; Discounts: Dr. £2 16s. 10d., Cr. £17 19s. 10d.

Exercise 4q.—From the following particulars prepare the Petty Cash Book of W. Robertson for the month, using analysis columns for the following classes of expenditure: (a) Postage, Telegrams, etc. (b) Stationery, (c) Advertisements, (d) Carriage, (e) Fares, (f) Sundries, and a "Ledger column." Balance the Cash Book as on May 14, 1910. May 1, 1910. Drew from Bank for petty cash £20; May 1, postage 1s. 7d., telegrams 2s. 6d.; May 3, fares to Turnham Green 9d., advertisements in the *Rye Town Gazette* 13s. 5d., postage 7d. May 4, paid man for cleaning windows 1s. 6d., telegrams 1s. 3d., parcel to Potters Bar 9d.; cab to Westminster 4s.; May 5, sent boy out for pens 6d., blotting paper 4d., parcel to Brighton 1s. 1d.; stamps 10s.; May 7, surcharge on unstamped letters 2d.; advertisement in the *Pedlington Mirror* 5s.; new lock to office cupboard 2s. 6d., tram to Hackney 3d.; May 10, paid R. Jones his account 5s. 6d., hire of barrow 4d.; May 11, postage 2s. 2d., parcels 5s. 6d., fares 9d.; May 11, telegram 9d., train to Hastings on business 10s.; May 12, bottle of ink 2s. 6d., paid W. Harris his account 7s. 3d.; May 13, stamps 7s. 6d.; insertion of name in *Directory* 5s.; May 14, fare 4d., telegram 7d., new waste-paper basket 2s. 6d. (debit Furniture Account in Ledger Column).—*Answer.* Balance in hand £15 3s. 2d.

CHAPTER V

Exercise 5E.—From the following particulars write up my Purchases Book:—1910. Nov. 1, bought of A. Brown 1 doz. pocket knives at 11s. 6d. each, less 10 per cent. Trade Discount; Nov. 2, bought of Wray & Co. 2 doz. pocket knives at 4s. 6d. each, net. and 1 doz. ditto at 8s. 6d. each, less 15 per cent. Trade Discount; Nov. 3, bought of Hyne & Co. 1 doz. cases of scissors at 10s. 6d. per case net; Nov. 4, bought of Williams Bros. 2 doz. "Haba" razors at 4s. each net, and 1 doz. ditto at 3s. 6d. each; Nov. 5, bought of Knowle & Sons 1 doz. cases of scissors at 15s. per case, less 10 per cent. Trade Discount, and 1 doz. razor strops at 2s. 9d. each net.—*Answer.* Total Purchases £38 17s. 10d.

Exercise 5F.—From the following particulars write up the Purchases Book of Henry Johns:—1910. Nov. 1, bought of A. B. Baker 3 cwt. shellac at £3 15s. per cwt., and 1 cwt. beeswax at £7 16s. per cwt., both less 5 per cent. Trade Discount; bought of Ball Bros. & Co. $\frac{1}{2}$ cwt. Socotrine aloes at £4 10s. per cwt., and 10 lb. cardamoms at 2s. 6d. per lb.: Nov. 2,

bought of Banks & Barclay 1 cwt. tumeric at 13s. 6d. per cwt., and 2 cwt. gum olibanum at 32s. per cwt.; bought of Barham & Barker 1 cwt. gum myrrh at £2 12s. per cwt., 1 cwt. ditto at £2 15s. per cwt., and 2 cwt. ditto at £3 per cwt., all subject to 5 per cent. Trade Discount; Nov. 3, bought of Barnett & Co. 12 lb. isinglass at 2s. 6d. per lb. net, and 1 cwt. capsicums at 29s. per cwt. net; Nov. 4, bought of Baum & Sons, Ltd., 10 cwt. gum arabic at 27s. 6d. per cwt., less 5 per cent. Trade Discount.—*Answer.* Total Purchases £32 5s. 4d.

Exercise 5c.—From the following particulars write up my Purchases Book, including analysis columns for “Cutlery,” “Electro Plate,” and “Leather” Departments:—1910. Nov. 1, bought of J. Pollock 1 doz. pairs of scissors at 2s. per pair, and 1 electro-plated breakfast dish at £4 2s. 0d.; bought of C. Jordan 1 electro-plated egg steamer at 21s., 2 ditto at 23s., 1 doz. cases of scissors at 12s. 6d. per case, and 1 doz. razors at 3s. 6d. each; Nov. 2, bought of Webb & Co. 3 ladies’ morocco leather handbags at 12s. 6d. each, 6 cases of razors (2 in a case) at 10s. per case, 4 cases ditto (4 in a case) at 16s. per case, and 1 set of entrée dishes, electro-plated, at £9 18s. per set; Nov. 4, bought of Fuller Bros. 3 ladies’ leather music bags at 16s. each, $\frac{1}{2}$ doz. pocket knives at 6s. 6d. each, 1 electro-plated hot-water jug at 35s., and 1 lady’s crocodile leather handbag at 16s. 6d.—*Answer.* Total Purchases £43 3s.

Exercise 5h.—C. Wyatt is a dealer in clocks and watches. From the following particulars write up his Purchases Book, including analysis columns for his “Clock” and “Watch” Departments respectively:—1910. Dec. 5, bought of Bykes 1 mahogany-case clock at £5 5s., 1 ditto at £4 4s., and 3 gentlemen’s Swiss silver watches at 46s. each; bought of R. Wyllie & Co. 2 mahogany-case clocks at £3 13s. 6d. each, and one oak ditto at £2 12s.; Dec. 7, bought of J. Wyon 1 Buhl clock (marqueterie) at £2 10s.; 2 ditto with gilt mounts at £2 12s. 6d. each, and 1 18 ct. gentleman’s semi-hunter watch at £7 10s. 6d.; Dec. 9, bought of E. Wright 3 ladies’ Swiss watches (silver) at 30s. each, 3 gentlemen’s ditto at 32s. each, and 2 round dial clocks (walnut) at 62s. each; Dec. 16, bought of M. Wortley 1 cuckoo clock at 13s. 9d., 1 8-day nickel clock at 8s. 6d., and 1 lady’s 18 ct. Swiss lever watch at £3 13s. 6d.; Dec. 21, bought of B. Vine & Co. 1 marble clock with bronze pillars and ornaments to match £6 10s. and 3 gentlemen’s Swiss watches, silver, at £1 15s. each.—*Answer.* Totals, Purchases: Clocks £40 19s. 3d.; Watches £32 13s.; Grand Total £73 12s. 3d.

Exercise 5i.—From the following particulars make out the Purchases Book of Robert Bird, silversmith:—1911. May 2. Bought of Rice Bros. 5 electro-plated crumb scoops at 17s. each; May 6, bought of the Everwear Plate and Cutlery Co., Birmingham, 5 egg frames, plated, 6 cups, at 32s. each; 3 egg frames, plated, 4 cups at 26s. each; May 14, bought of Wearman Bros., 1 silver-mounted claret jug at £2 15s.; 1 plated mounted claret jug at £1 7s. 6d.; 3 silver-mounted cut-glass biscuit boxes at £3 2s. 6d. each; 1 E.P.N.S. 8-inch waiter (engraved), at 23s. 6d.; May 21, bought of Rice Bros., 1 presentation silver tea-set (to order) engraved, Order C 295, £16 3s. 6d.; May 28, bought of S. W. Murphy, 1 E.P.N.S. chafing dish at £2 12s. 9d.; 1 plated egg-steamer, plain, at 16s. 6d.; 1 plated

muffin dish at 19s. 6d. ; May 31, bought of R. Holmes, 1 set of 4 entrée dishes, plated, chased edges, second quality, at £5 17s. 6d. per set.—*Answer.* Total of Purchases Book, £57 6s. 3d.

Exercise 5J.—From the following particulars write up the Purchases Book of the International Fur Association, Ltd. :—1911. March 7. Bought of Strelski & Zoitoff, St. Petersburg, 6 astrachan muffs at £1 10s. each and 3 fox muffs at £3 5s. each; bought of Lewis Charles & Co. 2 dyed musquash coats at £12 each, less 5 per cent. trade discount; March 8, bought of Harrison Bros. 6 mink stoles at £5 each; March 10, bought of Jacobsen & Weil 12 marmot muffs at £1 2s. each, less 5 per cent. trade discount; 12 moleskin muffs at £2 each, less 5 per cent. trade discount; 12 bear muffs at £2 5s. each, less 5 per cent. trade discount; March 15, bought of Hearst & Co. 3 grey squirrel ties at 42s. each, and 3 grey squirrel muffs at 45s. each; March 16, bought of R. Lewisohn 2 fur-lined tweed coats at £5 each; 2 fur-lined cloth coats at £7 5s. each; March 23, bought of Rosoff & Meer, 1 bear stole at 45s., and 1 bear muff at £2; March 29, bought of Méricourt Frères, Paris, 1 sable stole at £15 and 1 sable muff at £10, both subject to 5 per cent. trade discount; March 31, bought of Bielski, Drammen & Co., Moscow, 3 caracul coats at £7 5s. each; 1 moleskin tie at 22s.; bought of Gebruder Strohl 1 astrachan muff at 32s., and 1 skunk stole at £2.—*Answer.* Total of Purchases Book, £224 10s. 10d.

CHAPTER VI

Exercise 6E.—Enter the following transactions in H. Wray's Day Book :—1910. March 1, sold M. Heaps 6 tortoiseshell cross-hook-handle ladies' umbrellas, twill silk covers, at 24s. 6d. each, and 2 chased silver swan-handle ladies' umbrellas, silk, at 27s. 3d. each; sold R. Morris 1 doz. 23-in. ladies' umbrellas, Gloria covers, natural handles, at 3s. 6d. each, and 1 doz. gentlemen's ditto, Union covers, at 4s. 3d. each; sold C. Capper 6 steel tube gentlemen's umbrellas, twill silk and malacca, at 15s. 6d. each, $\frac{1}{2}$ doz. boys' school umbrellas, Union, at 2s. 6d. each, and 1 doz. ladies' steel tube umbrellas, partridge and twill silk, at 13s. 6d. each, all subject to 5 per cent. Trade Discount; sold D. Dankes 1 artist's sketching umbrella, 28 in., spiral ferrule, at 12s. 6d.—*Answer.* Total Sales £28 3s. 6d.

Exercise 6F.—From the following particulars prepare C. Mayor's Sales Journal in analyzed form, containing analysis columns for the "Leather Goods" and "Silver" Department sales respectively. Transactions belonging to the "Leather Goods" Department are marked L, and those belonging to the "Silver" Department are marked S :—1910, April 7, sold M. Beck 1 doz. leather photograph frames (No. 38) at 13s. 6d. per doz. (L), and $\frac{1}{2}$ doz. 30-hr. clocks, silver in leather case, at 7s. 6d. each (S); sold R. Bourne 3 doz. Empire design silver calendars at 95s. per doz. (S), 2 doz. glass matchboxes, silver mount, at 72s. per doz. (S), and 1 doz. plated taper stands at 2s. 6d. each (S); April 8, sold C. Hollingsworth 6 assorted designs silver photo frames, c.-de-v. size, at 6s. 6d. each (S), 6 ditto cabinet size, at 10s. 6d. each (S), and 3 ditto, imperial size, at 17s. 6d. each (S); sold M. Swann 1 doz. leather writing-cases (No. 88c), at 12s. each (L), 1 doz. ditto (No. 88d), at 15s.

each (L), and $\frac{1}{2}$ doz. ditto (No. 88e) at £1 each (L), all subject to 5 per cent. Trade Discount; also 1 doz. silver-mounted perfume sprays at 4s. 6d. each net.—*Answer.* Total Sales £57 7s. 10d.

Exercise 6G.—On Oct. 1, L. Marley sold to P. Newton the following goods to be paid for in one month, less $2\frac{1}{2}$ per cent. Discount:—1 gross pocket knives at 18s. per doz., less $33\frac{1}{2}$ per cent.; 4 doz. pearl penknives at 48s. per doz., less $33\frac{1}{2}$ per cent.; 3 doz. ivory penknives at 45s. per doz., less $33\frac{1}{2}$ per cent.; 6 doz. ivory table knives at 24s. per doz., less 25 per cent.; 6 doz. ivory dessert knives at 18s. per doz., less 25 per cent.; 3 cases carvers (5 pieces) at 24s. per case, less 25 per cent. In what book of first entry would L. Marley record these transactions? Rule the form of book and make the entries therein as they ought to appear. Make out also an invoice in proper form for delivery to the purchaser. (*Institute of Chartered Accountants; Inter., Nov. 1906.*)—*Answer.* Invoice Total £30 5s.

Exercise 6H.—Enter the following transaction in its proper book of first entry, and show the transaction also in the Purchasers Ledger Account:—1911. Jan. 3, sold Wrightson, Wild & Co., for export, 1 doz. gents' steel tube umbrellas at £1 ls. each, less $33\frac{1}{2}$ per cent.; 2 doz. ditto at 25s. each, less 40 per cent.; 2 doz. ladies' umbrellas at 25s. each, less 30 per cent.—*Answer.* Total £47 8s.

Exercise 6I.—Enter the following sales in my Sales Book:—1911. June 1, Sold to S. Boorman & Co. 2 dozen table knives at 25s. per dozen; June 3, sold to A. Barrow 12 gold bracelets at 26s. each; June 6, sold to J. Steward 3 clocks at 80s. each; June 7, sold to B. Bashall 10 watches at 36s. each; June 8, sold to R. Olney 20 alarm clocks at 3s. 9d. each; June 9, sold to H. Hope & Co. 10 dozen dessert knives at 50s. per dozen.—*Answer.* Total of Sales Journal £76 17s.

Exercise 6J.—Enter the following transactions in the Sales Book of the Californian Preserved Fruit Supply Co., Ltd.:—1911. March 7, Sold Haysome & Co. 50 cases of preserved apricots in tins, "Gloria" brand, at 11s. per case, and 10 cases of preserved Bartlett pears, "Luxtra" brand, at 15s. per case; sold J. W. Howarth 40 cases of lemon cling peaches in tins, "Aura" brand, at 14s. per case, and 20 cases apricots (peeled) in tins, "Superba" brand, at 21s. per case; both less 5 per cent. trade discount; March 8, sold Collins & Colman 50 cases assorted preserved fruits in tins (each case containing 1 dozen tins apricots, $\frac{1}{2}$ dozen tins pears, and $\frac{1}{2}$ dozen tins peaches) at 22s. per case, less 5 per cent. trade discount; and 1 sample case of pineapple (chunks) at 17s. 6d. per case; March 10, sold Klenck's Stores, Ltd., 5 dozen bottles French cherries in syrup at 10s. 3d. per dozen bottles, 10 dozen bottles English strawberries in syrup at 6s. 6d. per dozen bottles, and 10 dozen bottles (large) raspberries in syrup at 22s. per dozen bottles; March 11, sold Elston, Sons & Co. 5 cases extra quality apricots in tins at 24s. 6d. per case, and 1 dozen bottles English plums at 8s. per dozen bottles; March 12, sold W. Kimber 3 cases of peeled apricots in tins, "Capitade" brand, at 25s. per case, less $2\frac{1}{2}$ per cent. trade discount, and 12 cases lemon cling peaches, sliced, at 24s. 6d. per case, less 5 per cent. trade discount.—*Answer.* Total of Sales Journal £175 12s. 9d.

CHAPTER VII

Exercise 7E.—On the 1st January, 1907, A B decided to keep his books by double entry. His position on that date was as follows:—Cash at bank £300, stock-in-trade £400, due from customers £500, due to trade creditors £200, bills payable outstanding £250. Show the Journal entries necessary to open the books. (*Chartered Institute of Secretaries; Intermediate, June, 1907.*)
—*Answer.* Capital £750.

Exercise 7F.—On 1st January, 1911, I decided to keep my books by double entry. My position at that date was as follows:—Cash at bank £1,000, cash in hand £50, freehold premises £2,000, bills receivable £150, bills payable £850, sundry debtors £1,020, sundry creditors £1,560, stock-in-trade £560, carts and horses £125, loan on mortgage from C. Wise £1,000. Prepare the Journal entries necessary to open my books. *Answer.* Capital £1495.

Exercise 7G.—Enter the following transactions in a Journal, ruling the necessary form:—1910. Feb. 17, exchanged 2 horses worth £20 each, and a cart worth £15, receiving against them 11 sheep worth £5 each; June 16, exchanged a motor bicycle worth £20 with Henry Jones, he giving me a tricycle worth £12 and a camera worth £8 in exchange for it; Sept. 16, parted with a set of harness (new) worth £5, receiving in exchange 2 second-hand sets of harness worth £2 10s. apiece. Also enter, under date the 31st Dec., 1910, the Journal entries necessary to rectify the following:—I received £60 on the 24th Sept., 1910, from J. Jones; my book-keeper credited it in error to W. Jones & Co. Ltd., with whom also I have had dealings.—R. Masters paid me a fee of £5 5s. for valuing some property belonging to him; my book-keeper has credited it erroneously to "Cash Sales" Account.—*Answer.* Journal Totals £145 5s.

Exercise 7H.—Journalize the following transactions, ruling the necessary form, and inserting dates:—Started business with £100 cash, £200 goods on hand, and owing C. Miles £50; made Hoare & Co. a special allowance of £5 in respect of certain goods sold to them; I find that my book-keeper on August 31st credited £20 received from C. Jones to G. Jones & Son's account instead of to C. Jones; write £50 off Furniture and Fixtures and £20 off Plant and Machinery; transfer the following balances to the Profit and Loss Account, viz.:—General expenses (Dr.) £120; discount received (Cr.) £35; rent, rates, and taxes (Dr.) £250; salaries (Dr.) £655.—*Answer.* Journal Totals £1525.

Exercise 7I.—What transactions do the following Journal entries represent?

		£	s.	d.	£	s.	d.
Feb. 1.	Bill Receivable Dr.	150	0	0			
	Cash "	11	0	0			
	Discount "	0	7	5			
	To Frant & Co.				161	7	5
" 3.	Roberts & Co. Dr.	100	0	0			
	To Bills Payable				100	0	0
" 5.	Bank Dr.	400	0	0			
	To Cash "				400	0	0

		£	s.	d.	£	s.	d.
Feb. 7.	Cash Dr.	40	8	9			
„	Bad Debts „	40	8	9			
	To J. Rupert				80	17	6
„ 9.	Private Expenses . . Dr.	20	0	0			
	To Bank „				20	0	0

(College of Preceptors; Junior, Midsummer, 1907.)

—Answer. Feb. 1, Bill and Cash received under discount from Frant & Co.; Feb. 3, Acceptance given Roberts & Co.; Feb. 5, Cash paid to bank; Feb. 7, 10s. in the £ received on J. Rupert's debt, rest written off; Feb. 9, cheque drawn for private expenses.

Exercise 7j.—The books of Messrs. Wm. Jones & Co. were balanced on 31st Dec., 1903, and a Profit and Loss Account and Balance Sheet prepared. The profit for the year, as shown by these accounts, amounted to £2,481 6s. 4d. The following mistakes had been made by the book-keeper during the year:—

- A gas engine costing £450 had been debited to "Purchases Account" instead of to "Machinery and Plant."
- An amount of £15 12s. 8d. received as a final dividend in the estate of G. Smith, the balance of whose account had, in a previous year, been written off as a bad debt, was standing to the credit of a newly-opened account under the same name, and was included amongst the "Sundry Creditors" in the Balance Sheet.
- A cheque amounting to £10 4s. 8d., which had been returned dishonoured, was posted to the debit of "Allowances Account" instead of to the account of B. Brown, from whom it was received.
- Goods amounting to £52 1s. 4d. had been returned by R. Robinson, on Dec. 30th, 1903, and were taken into stock, but the entries recording the return were not passed through the firm's books until Jan. 4th, 1904.

What adjustments would be necessary to rectify these errors, and how would they affect the above-mentioned profit? (London Chamber of Commerce; Senior, 1904.)—Answer. Adjusted Profit £2905 2s. 4d.

Exercise 7k.—Make the following Journal entries, posting the same in the Ledger Accounts and showing both the Journal entries as also the postings in such Ledger Accounts:—(a) Debit William Brown 1 year's interest at 5 % on £1,000 loan to him, say £50. (b) Credit William Brown with Income Tax on this £50 interest at 1s. in the £, say £2 10s. (c) Transfer the following totals to the debit of Profit and Loss Account: Rent £100, salaries £500, postages £5 10s., say £605 10s. (d) Transfer the following totals to the credit of Profit and Loss Account: Commissions £1,210, agencies £705, interest on loan £47 10s.—say £1962 10s. (Institute of Bankers; Preliminary, April, 1906.)—Answer. Journal Totals £2620 10s.

Exercise 7l.—Prepare the Journal Entries which are necessary in order to correct the following errors, ruling the necessary forms. Date the entries May 19, 1911:—£60 was received from A. Day on March 4, 1911, and was credited to his account. It now appears that he remitted the money, not on his own behalf, but on behalf of his father, Richard Day, with whom I have had dealings. My Ledger-keeper made, on Jan. 10, 1911, the following entries on the debit side of his Cash Book: (a) To Commission Account, cheque

from C. Way £27 2s. 9d.; (b) To *Horses Account*, proceeds of one horse sold to C. Way £25; (c) To *C. Way*, cheque for credit of his account £17 2s. 9d.; he posted the entries accordingly. It now appears that the £17 2s. 9d. was the purchase-price of the horse sold by me for cash to C. Way, that the £27 2s. 9d. was a cheque remitted by C. Way for credit of his account as one of my trade customers, and that the £25 was for commission remitted by C. Way to me for letting one of his farms. On March 1, I paid £25 by cheque to R. Lucien, being his fee for surveying an estate owned by me; it should therefore have been debited to "Surveyor's Fees" Account. My Ledger-keeper has, however, debited the amount to R. Lucien's Personal Account. I paid in cash £3 10s. to W. Hughes, an injured workman, as compensation. My Ledger-keeper has debited this sum to "Workmen's Compensation" Account; this sum was, however, paid by me, not on my own behalf, but on behalf of the Insurance Company with whom I am insured against this kind of loss; the Company later on sent me a cheque for the £3 10s., and the sum should, originally, have been debited to them.—*Answer.* Journal Totals £157 15s. 6d.

Exercise 7M.—Prepare Journal Entries to correct the following errors:—Oct. 1, Received a cheque for £15 which was posted to the credit of M. Brown, although it really came from W. Brown & Co.; October 3, I paid a solicitor named L. Mauve a cheque for £10 10s. for some legal work he had done for me, which should have been posted to Legal Expenses; my book-keeper, however, opened an account for L. Mauve and posted it to that account; Oct. 6, I returned some unsatisfactory goods worth £10 to G. Chrome, part of a lot he had sent me, these returns were entered in the Sales Book; Oct. 10, an item of £50 was posted to the "Furniture" Account instead of to the "Premises" Account.—*Answer.* Journal Totals £85 10s.

Exercise 7N.—From the following details write up the Journal Entry necessary to open the books of B. Scarlett as on Oct. 1, 1911, showing the commencing "Capital":—Cash at Bank £271 3s. 9d.; Stock £475 0s. 8d. *Creditors*, G. Gray £27 2s.; S. Madder £47 3s. 1d.; Premises £800; Plant and Machinery £247 6s. 3d. *Debtors*, G. Bice, £73 6s. 9d.; M. Steyne, £32 4s. 2d.—*Answer.* Capital £1,824 16s. 6d.

Exercise 7O.—From the following details prepare the Journal Entry necessary to open the books of R. Wagner as on Jan. 1, 1911:—Leasehold premises £1,500; furniture and fittings £75; stock £1,122 7s. 3d. *Debtors*, L. Beethoven £47 6s. 2d.; F. Mendelssohn £6 0s. 2d.; F. Schubert £47 9s. 9d.; bill receivable £225; cash at Bank £62 0s. 4d. *Creditors*, G. H. Handel £99 4s. 7d.; A. S. Sullivan £62 0s. 4d.; F. Chopin £30. Cash in hand £22 4s. 2d. Owing to F. Liszt (money lent by him to start the business) £4,000.—*Answer.* Capital debit balance £1,083 17s. 1d.

Exercise 7P.—The undermentioned errors were discovered in the books of J. Johnson & Co., affecting the year ended June 30, 1910.

- (1) April 20. A cheque received from W. Brown for £11 was posted to his credit as 11s.
- (2) May 31. A Sale of £26 10s. was credited correctly, but debited to the Customer's Account as £20 6s. 10d.

1910.

- (3) June 29. Goods were returned by R. Carr of the invoice value of £27 10s., and were taken into Stock at £25, but the returns were not entered in the books until the following month.
- (4) June 29. The acceptance of Badart Frères to Johnson & Co.'s draft for £220 payable in Paris and which had been discounted, was dishonoured. The acceptance was worthless and the Bankers debited Johnson & Co.'s Account on July 1, 1910.

Show how the adjusting entries should be made in J. Johnson & Co.'s books at June 30, 1910 (*Institute of Chartered Accountants; Intermediate, November 1910*).—*Answer.*

- (1) Credit W. Brown £10 9s. 0d. } making no further entry.
 (2) Debit the Customer £6 3s. 2½. }
 (3) June, Debit Returns, Credit Carr £27 10s.
 (4) Credit Bankers, Debit Bad Debts £220.

CHAPTER VIII

Exercise 8E.—Henry Johnson, provision merchant, holds two Bills Receivable, one being for six months for £100, accepted on June 30, 1904, by George Jenkins, and the other for five months, accepted on June 18, 1904, by Alfred Smith, for £90. Give a sketch of a suitable Bills Receivable Book for Henry Johnson and enter the above Bills therein. Alfred Smith failed to honour the Bill accepted by him: What entries does such default necessitate in Henry Johnson's books? (*Society of Arts; Intermediate, 1905*).—*Answer.* B.R. Book Total £190.

Exercise 8F.—On 1st February, 1909, the Welsh Coal Company, Limited, owe to the Birmingham Steel Company, Limited, £1,100, subject to a rebate of 3 per cent., and they have a contra account against the latter Company of £750, subject to a deduction for allowances and short weight of £18. It was agreed to settle the balance of the accounts by a bill at three months' date, and the bill is discounted one month before maturity at 3 per cent. per annum. Show the form in which the bill would be drawn and signed, including the form of acceptance and of endorsement; and show the transactions as they will appear in the books of the second-named Company. (*Institute of Chartered Accountants; Inter., Nov. 1909*).—*Answer.* Amount of Bill £335; Discount on Bill 16s. 10d.

Exercise 8G.—Ebenezer Scrooge draws a bill for £250 on Jacob Marley at four months from March 1. On May 1 he finds it convenient and discounts the bill with his bankers, who charge him 5 per cent. Instance the necessary entries in Scrooge's books to bring these transactions to account. (*Society of Accountants and Auditors; Intermediate, June, 1901*).—*Answer.* Discount, 64 days, £2 3s. 10d.

Exercise 8H.—From the following particulars write up my Returns Outwards Book:—1910. Nov. 1, returned to Brown & Co., London, 1 plated crumb-scoop, ivory handle at 22s. 6d., ivory stained; returned to Jones & Co., Birmingham, 1 glass and electro-plated biscuit box at 13s. 9d., cracked; Nov. 2, returned to

B. Williams, Sheffield, 1 case of cake servers, silver, at £2 2s. 6d., wrong pattern, and 2 silver napkin rings at 10s. 6d. each, 6 ordered, 8 sent; Nov. 5, returned to M. Hayes, London, 3 E.P.N.S. waiters, chased, at £2 1s. each, less 10 per cent. Trade Discount, wrong size sent; Nov. 7, returned to C. Jay, London, 3 cases teaspoons and tongs, silver, at 36s. per case, less 5 per cent. Trade Discount, and 2 sets silver muffineers in case at 35s. per set net, both wrong pattern.—*Answer.* Returns Outwards Book Total £19 3s.

Exercise 8i.—From the following particulars prepare the Returns Outwards Book of C. Ray, carpet dealer, assuming that all goods returned are allowed for at full invoice prices: 1910. Sept. 1, returned to Hays & Co., 3 Axminster carpet squares 12 ft. by 10 ft., wrong size, invoiced at £3 10s. each; Sept. 6, returned to Ryle & Sons 1 Roman bordered carpet 12 ft. by 15 ft., wrong colour, invoiced at £3 5s., less 5 per cent. Trade Discount, and 2 bedroom art carpets 9 ft. by 15 ft., stained with grease, invoiced at £2 each net; Sept. 12, returned to R. Horne 3 hearth rugs 72 in. by 36 in., stained, invoiced at 9s. 6d. each, and 6 Axminster corridor rugs 9 ft. by 3 ft., wrong colour, invoiced at 13s. 6d. each; Sept. 13, returned to Maynes, Ltd., 6 goat-skin hearth rugs, invoiced at 17s. 6d. each, skin faulty, 1 mottled hearth rug, No. 38, wrong colour, invoiced at 3s. 6d., and 5 Brussels squares 12 ft. by 9 ft., inferior quality to those ordered, invoiced at £2 2s. each.—*Answer.* Returns Outwards Book Total £38 19s. 9d.

Exercise 8j.—From the following particulars prepare the Returns Inwards Book of M. Wise & Co., photographic dealers; all returns are allowed for at full invoice prices:—1910. Oct. 12, Brown & Co. returned 1 No. 68 $\frac{1}{2}$ -plate stand camera, lens cracked, invoiced at £3 3s., and 1 No. 32b $\frac{1}{4}$ -plate shutter invoiced at 10s. 6d., faulty. Oct. 12, M. Hays returned 3 "Midget" watch camera outfits invoiced at £1 each less 5 per cent. Trade Discount, arrived damaged, and 1 "Prena" $\frac{1}{4}$ -plate film camera invoiced at 32s. 6d., shutter faulty; Oct. 13, R. Hedges returned 1 "Dufour" $\frac{1}{4}$ -plate box hand camera, No. 38, invoiced at £3 3s., lens defective; Oct. 14, C. Hubert returned 2 telescopic aluminium camera stands invoiced at £1 1s. each, not as ordered, and 1 waterproof canvas camera case invoiced at 8s. 6d., soiled; Oct. 17, E. Bradbury returned 1 X.R.A. $\frac{1}{4}$ -plate lens invoiced at £5, less 5 per cent. Trade Discount, not needed, 2 youths' "Guinea" hand cameras invoiced at 12s. 6d. each net, damaged, and 1 "Grandex" daylight enlarger, size K, invoiced at 25s., not as ordered.—*Answer.* Returns Inwards Book Total £21 1s. 6d.

Exercise 8k.—From the following particulars write up my Returns Inwards Book in analyzed form, including columns for "Plate" and "Cutlery" Departments:—1910. Dec. 5, Church Bros. returned 1 E.P.N.S. waiter (12 inch) at £1 17s. 6d., and 1 doz. ivory-handled knives at 37s. 6d. per doz., both wrong patterns; Dec. 7, Child & Co. returned 2 dozen ivory-handled knives at 35s. per dozen, ivory inferior, and 1 plated mount claret jug at 25s., plating imperfect; Dec. 9, J. Harrison returned 2 electro-plated biscuit boxes at £1 10s. each, and 1 case electro-plated fish knives and forks at £4, both not as ordered.—*Answer.* Returns Inwards Book Total £15 10s.

Exercise 8l.—Henry Harris, an iron and steel merchant, bought from a Railway Company on Sept. 1, 1896, 245 tons of old steel

rails at 35s. per ton, paying for the same before delivery by a cheque on his bankers for the full amount. The rails were delivered on Sept. 3, when five tons proved to be iron rails and were returned to the Railway Company. The remainder were sold as follows:—Sept. 5, 100 tons to J. Wilson & Sons at 45s. per ton on monthly account, for which Harris drew a bill on them at 3 months and discounted* it at 4 per cent. per annum; Sept. 7, 120 tons to Thomas Frith at 40s. per ton on monthly account. This was duly paid for on Oct. 10 by cheque for the full amount; Sept. 2 to 8, 20 tons to sundry persons at an average price of 42s. per ton for cash. Write up the books of Henry Harris in accordance with the particulars given above and post to the various ledger accounts. Draw the three months bill above mentioned accepted payable at the City and County Bank, and enter the particulars in Henry Harris's Bill Book; (*Institute of Chartered Accountants; Intermediate, December, 1896.*)—*Answer.* Totals: Purchases £428 15s.; Sales £507; Returns Outwards £8 15s.

Exercise 8M.—A sold goods to the value of £600 to B on Jan. 2, 1908. On Feb. 2 B sent A a bill, dated that day, for £600 at 4 months. On March 5 A discounted the bill with his bankers at 6 per cent. per annum.† On May 28 B wrote to A and informed him that he was unable to meet the bill, and requested A to retire it, which A did. At the same time B sent A a cheque for £200 (which was duly met) and a bill at three months dated June 2 for £400 and interest at 5 per cent. per annum.†

Make the entries in A's books recording the above transactions, opening and posting up in the Ledger the accounts which are affected. (*Institute of Chartered Accountants; Final, November, 1908.*)—*Answer.* Discount £9, amount of Second Bill £405.

Exercise 8N.—From the following particulars prepare the Purchases Returns Book of Hubert Smith. 1911. March 21, returned to Pannell Bros. 2 tables, top 20 in. sq., "not as ordered," invoiced at 15s. each, £1 10s.; March 22, returned to Hare & Co. 1 office arm-chair, invoiced at 12s., "one leg broken," 12s.; 1 small table, invoiced at 8s., "top badly scratched," 8s.; March 24, returned to Mr. Chase 1 lady's rocking-chair, cane, invoiced at 12s., ordered "upholstered plush," 12s.; March 29, returned to Wharton & Co. 1 bath-chair, wicker, invoiced at £1 15s., medium size ordered, small size received; March 31, returned to Hare & Co. 1 japanned and decorated dressing-chest, "glass cracked," invoiced at £1 2s.; 1 mahogany occasional table, "top cracked," invoiced at 19s. 6d.; 1 cretonne-covered sofa, "cretonne wrong pattern," invoiced at £1 15s.—*Answer.* Total of Purchases Returns Book = £8 13s. 6d.

Exercise 8O.—From the following particulars write up the Sales Returns Book of the Euston Carpet Supply Co.:—1911. May 17, received from J. Brown, 2 seamless Axminster carpet squares, 12 ft. x 10 ft. 6 in., "wrong size," invoiced at £4 each, £8; May 18, received from D. Mackenzie 10 Brussels bedroom carpet squares 12 ft. x 9 ft., assorted colours, "inferior quality to those ordered," invoiced at £2 15s. each, less 10 per cent. trade discount; May 19, received from O'Connor and Long 1 heavy Roman bordered bedroom art carpet, 12 ft. x 15 ft., "wrong colour," invoiced at £3 2s. 6d.;

* Work discount in months.

† Work discount and interest in months.

2 Corona bordered bedroom art carpets, 9 ft. x 15 ft., "wrong pattern," invoiced at £2; 1 hearth-rug, 72 in. x 36 in., W.C. 992, "stained with grease," invoiced at 9s. 6d.; May 24, received from G. Lloyd & Cecil, Ltd., 2 Axminster corridor rugs, 9 ft. x 3 ft., "wrong size," invoiced at 16s. each, £1 12s.; Goat-skin hearth-rug, grey, invoiced at 18s. 9d., "skin faulty"; May 26, received from the Streatham Stores Co., Ltd., 1 mottled hearth-rug, 64 in. x 27 in., "stained," invoiced at 3s.—*Answer.* Total of Sales Returns Book = £41 0s. 9d.

Exercise 8P.—Pass the following transactions through the proper books (including a Bills Receivable Book to be ruled by you), and make all the entries which are necessary to comply with the double-entry system:—1911. Jan. 6, received from Hubert & Co. their acceptance (No. 1), drawn by me in my own favour, payable three months from to-day, at 394, Lime Street, E.C., for £200; Jan. 18, received from Miles Bros. a Bill of Exchange (No. 2), drawn by me on them in my favour, payable two months after date at the Bank of England, London, dated Jan. 18, 1911, for £250; Jan. 21, received from Wrilding & Co., a Bill of Exchange (No. 3), drawn by myself on them in my favour, payable ten days after date at 222, Little Mill Street, Leeds, dated Jan. 21, 1911, for £600; Feb. 3, Bill Receivable (No. 3), due to-day, was presented by my bankers, and was duly paid to them for my account; March 9, I discounted Bill (No. 1) with my bankers, being charged discount 15s.; March 21, Bill Receivable (No. 2), due to-day, was paid by me into my Bank Account for collection, but was returned dishonoured, the Bank having charged me 1s. 6d. for "noting expenses" in connection with the Bill; March 22, received from O. Jones his acceptance, drawn by me in my favour, payable one month after date, dated March 22, 1911 (No. 4), for £200.—*Answer.* Total of Bills Receivable Book = £1,250.

Exercise 8Q.—Pass the following transactions through my books in double-entry form, including a properly ruled Bills Payable Book. All bills are made payable at my bankers. The total of the Bills Payable Account is to be posted in its proper place:—1910. June 2, accepted J. Jones's draft three months from date, in his own favour, dated June 2, 1910 (bill payable No. 36), for £300; June 3, W. Brown drew on me, in his own favour, at ten days after date, dated June 3, 1910—accepted this draft (No. 37), £250; June 9, handed to C. Miles my acceptance, in his favour, due June 25–28, 1910 (No. 38), for £100; June 16, accepted Warren & Sons' draft, in their own favour, dated June 16, payable one month after date (No. 39), for £200; June 16, bill payable (No. 37) was paid by the Bank, £250; June 28, bill payable (No. 38) was paid by the bank, £100; July 19, bill payable (No. 39) was paid by the Bank, £200; Sept. 5, bill payable (No. 36) was paid by the Bank, £300; Sept. 7, gave C. Drew my acceptance, in his favour, dated to-day, payable three months after date, drawn by him (No. 40), for £100.—*Answer.* Total of Bills Payable Book = £950.

Exercise 8R.—From the following particulars prepare the Returns Outwards Book of V. Summers, Gentlemen's Outfitter:—1910. Sept. 9, returned to the Premier Outfit Co., Ltd., 1 chauffer's jacket, wrong size sent, 24s. 6d.; Sept. 11, returned to R. Hall & Co., 1 doz. pairs boys' boots at 54s. the doz., inferior quality, ½ doz. slippers at 24s. the doz., wrong colour sent; Sept. 18,

returned to the West End Co., Ltd., 3 doz. gentlemen's collars at 5s. 6d. per doz. sent in excess of order.—*Answer.* Total £5 1s.

Exercise 8s.—From the following particulars prepare the Purchases Returns Book of H. Brown, Furniture Dealer:—1910. March 17, returned to Turner & Co. 3 arm-chairs, "not as ordered," invoiced at 37s. 6d. each less 5 per cent. trade discount; March 24, returned to Carpenter Bros. 1 overmantel, warped, invoiced at 42s. net; March 26, returned to S. Joiner, 1 set of fire-irons, invoiced at 12s. 6d. less 10 per cent. trade discount; March 31, returned to L. Carver, 1 bracket, broken in transit, 17s. 6d. net.—*Answer.* Total £8 17s. 7½d.

Exercise 8t.—From the following particulars write up the Sales Returns Book of Messrs. Sillicker & Co., Glass Merchants:—1910. Oct. 3, Messrs. T. Quart & Co. returned 1 doz. and 4 tumblers, broken in transit, charged at 4d. each, less trade discount of 25 per cent.; Oct. 4, Messrs. Flint & Co. returned one packing-case, charged at 4s. 6d.; Oct. 6, J. Taylor returned 1 quart decanter, badly engraved, charged at 21s. the pair, less 10 per cent. Trade Discount; Oct. 7, Messrs. Tantalus & Co. returned 3 cut-glass jugs, wrong colour sent, charged at 2s. 6d. each net.—*Answer.* Total £1 5s. 5½d.

CHAPTER IX

Exercise 9E.—Write up the following transactions of Joseph Granby in his Cash Book and Sold and Bought Day Books; post to his Ledger, and make out a Trial Balance as on June 30, 1900. 1900. Jan. 1, cash in hand £17 15s. 3d.; cash at bank £186 17s. 9d.; goods in stock £349 13s. 11d.; Jan. 8, sold to Wells & Son goods £19 16s. 3d.; Jan. 12, bought of Brown Bros. goods £24 19s. 1d.; Feb. 12, Wells & Son pay £19 10s.—allowed them discount 6s. 3d.; Feb. 13, paid to bank £10; March 6, drew cheque for Brown Bros. £12; March 13, sold to Chas. Carr goods £34 15s. 1d.; March 31, received cash for goods £2 10s.; April 4, bought goods of D. Dixon, £86 2s. 9d.; April 18, Joseph Granby withdraws cash £20*; April 28, received from Carr, and paid to bank, £33, discount £1 15s. 1d.; May 9, Wells & Son buy goods £96 14s. 3d.; May 25, Wells & Son pay cash £40; June 6, paid Brown Bros. cash £12 10s., discount 9s. 1d.; June 14, paid Dixon cash £10, and cheque on bank £30; June 23, drew cheque for rent £25; cash paid for sundry expenses £14 17s. 3d. (*West Riding County Council, 1900.*)—*Answer.* Trial Balance Totals £734 5s. 3d.

Exercise 9f.—Thomas Flint bought, on Jan. 1, 1901, from the trustee of Samuel Chrystal, a bankrupt, his business as haberdasher, paying him immediately £400 for the stock and £50 16s. 6d. for furniture and fixtures (taken at a valuation), but nothing for goodwill, while the trustee kept and collected the book debts. Flint brought in as working capital £549 3s. 6d. He opened the usual books, using his Cash Book to record all receipts and payments which were through his Bankers, while he kept a Petty Cash Book to record the payment of wages and sundry expenses connected with the business. Pass the above and the following transactions through the proper books to the Ledger, and extract a Trial Balance as on Jan. 31:—Jan. 1, drew and cashed cheque for petty cash £10; Jan. 3, bought of Abel Smith 455 yds. velvet at 9s. 6d.

* Debit J. Granby's Capital Account.

a yd., and 996 yds. black silk at 5s. 3d. a yd. Accepted Smith's bill at 6 months for the amount of the invoice plus interest at 5 per cent. per annum for the accommodation; Jan. 4, bought 6 seats for his assistants at 10s. each, and a new counter costing £27, and paid for same net; Jan. 6, bought of Adam Jones 9 pieces, of 6½ yds. each, Irish linen at 2s. 2d. a yd., 2½ per cent. cash discount being allowed for payment within 14 days; Jan. 7, paid his accountant £24 3s. 6d. for examining the books of S. Chrystal and negotiating purchase with trustee; Jan. 8, received from his principal assistant £50 as a loan at 5 per cent. per annum interest, plus 7½ per cent. of the profits; Jan. 10, sold Mrs. White 16 yds. velvet at 12s. 6d. a yd., 33 yds. Irish linen at 2s. 6d. a yd., 2 Victoria felt underskirts at 10s. 6d. each, 12 yds. black silk at 6s. 6d. a yd., and 6 yds. purple silk at 9d. a yd. The total purchase was to be paid for not later than Feb. 6, 5 per cent. per annum being charged on the account if overdue, while 1½ per cent. discount was to be allowed if paid within 7 days; Jan. 11, paid his lawyer for expenses connected with the purchase of the business £10 6s. 8d.; Jan. 12, paid from petty cash postage of circulars £3, and sundry shop expenses £2 12s. 6d.; Jan. 13, received from Mrs. White payment of goods invoiced 10th; Jan. 16, paid Adam Jones as per invoice of the 6th inst.; Jan. 22, sold Mrs. White a repeat of the order of the 10th inst., but for half the quantity of each item, and upon the same terms; Jan. 22, sold Mrs. White a repeat of the order of the 10th, but the goods being soiled or imperfect, a trade discount of 15 per cent. was allowed; Jan. 31, drew and cashed cheque for wages for the month £20 3s. 9d., drew cheque £20 (as against profits) for private purposes, received for the month (as per till book) £103 12s. 6d., being cash sales (paid to bank). (*Royal Society of Arts; Intermediate*, 1901.)—*Answer*. Trial Balance Totals £1668 9s. 10d.

Exercise 9c.—The Trial Balance below contains three errors which you should be able to detect, and no others. Make any alterations which you think necessary, state why you make them, and show by adding the columns that the Dr. and Cr. totals then agree.

£	s.	d.		£	s.	d.
49	3	4	R. Leslie	85	14	1
847	3	11	Goods	219	4	4
			F. Fairfax	53	14	6
275	3	6	Bank	159	7	10
420	0	0	Bills Receivable	629	10	0
79	10	0	K. Longhurst			
29	3	6	Discount	35	11	9
103	14	4	Salaries and Wages			
			Trade Expenses	39	19	6
200	0	0	Bills Payable	375	0	0
845	15	7	Capital			
<u>£2,849 14 2</u>				<u>£1,598 2 0</u>		

Note: Redraw the Trial Balance, showing the *balance* of each account instead of the *total* on either side of the account. (*University of Cambridge Local Examination; Junior*, Dec. 1909.)—*Answer*. Capital and Trade Expenses on wrong sides; B.R. £629 10s. should be £269 10s.; T.B. Totals £1117 9s. 1d.

Exercise 9H.—A merchant has in stock at the end of his financial year 144 yards of cloth which cost him 3s. 4d. per yard less 5 per cent. discount. The selling price is 4s. 2d. per yard less 2½ per cent. discount. 12 yards of the cloth have been damaged and can be sold for 1s. per yard. At what sum should he value this cloth in his stock-taking? (*West Riding County Council; First Stage, May, 1906.*)—*Answer.* £21 10s.

Exercise 9I.—From the following particulars prepare C. Hay's Trading Account for the year 1910 :—Stock Jan. 1, 1910, £2050 2s. 2d.; sales £7,184 2s. 6d.; returns outwards £30; purchases £5,222 6s. 8d.; stock Dec. 31, 1910, £950; returns inwards £65 10s.—*Answer.* Gross Profit £826 3s. 8d.

Exercise 9J.—From the following particulars prepare O. Robinson's Manufacturing Account for the year 1910 :—Stock Jan. 1, 1910, £1000; purchases of materials £9000; returns outwards £400; wages £6,850; sales £17,000; cost of lighting and heating factory and electrical power (manufacturing) £700; carriage of raw materials to factory £125; stock in hand Dec. 31, 1910, £2525.—*Answer.* Gross Profit £2250.

Exercise 9K.—Draw out a Profit and Loss Account :—Jan. 1, 1906, capital £2675; Jan. 31, gross profit £425; sundry expenses £35; rent £70; wages £80; bad debts £20; discounts received £25; discounts allowed £30. (*Auctioneers' Institute of the U.K.; Preliminary, 1907.*)—*Answer.* Net Profit £215.

Exercise 9L.—From the following particulars prepare C. Wray's Trading and Profit and Loss Accounts for the year 1910 :—Purchases £3,311 ls. 3d.; sales £5,131 11s. 3d.; stock Jan. 1, 1910, £1,101 ls. 11d.; stock Dec. 31, 1910, £1,313 13s. 11d.; salaries, £711 13s. 10d.; rent, rates, and taxes £231 ls. 10d.; postage, stationery, and telegrams £113 ls. 1d.; discounts allowed £31 11s. 1d.; discounts received £13 ls. 11d.; interest paid on mortgages £136 6s. 1d.; interest received on deposit account at bank £31 ls. 10d.; returns inwards £13 13s. 1d.; returns outwards £311 11s. 3d.; depreciation £100.—*Answer.* Net profit £1051 10s.

Exercise 9M.—From the following particulars prepare the Trading and Profit and Loss Accounts of Eureka, Ltd., for the year 1910 :—Stock Jan. 1, 1910, £13,882 4s. 9d.; stock Dec. 31, 1910, £12,118 4s. 6d.; sales £100,121 14s. 9d.; purchases £66,222 1s. 8d.; returns outwards £884 9s. 2d.; returns inwards £1221 0s. 4d.; general expenses £1884 9s. 6d.; commission received £21; interest paid £368 15s. 9d.; discount received £111 4s. 9d.; discount allowed £1,200 4s. 6d.; rent, rates, and taxes £3321 9s. 2d.; salaries and wages £4,486 1s. 9d.; stationery and printing £599 2s. 8d.; carriage on goods sold £244 8s. 2d.; postages, telegrams, and telephone £388 4s. 9d.; depreciation of office furniture and fittings £111 2s. 2d.; amount written off preliminary expenses £1000; bad and doubtful debts, provision for, £2200.—*Answer.* Gross Profit £31,799 1s. 8d.; Net Profit £13,127 8s.

Exercise 9N.—On Dec. 31, 1899, J. Harris found that his gross profit on trading for the year 1899 amounted to £760. He also discovered that his gross sales during the year had exceeded his purchases by £631 0s. 8d., but that £132 worth of goods thus sold had been returned to him. His stock on Dec. 31, 1899, consisted of 3 tons 2 cwt. of copper at £71 per ton, and 19½ tons 7½ cwt. pig iron at

66s. 8d. per ton. Assuming for the purposes of this question that the prices of copper and pig iron have not varied during the year, what was the value of his stock on Jan. 1, 1899? (*Civil Service Commissioners [Assistant Surveyor of Taxes], Jan. 1901.*)—*Answer.* £607 1s.

Exercise 90.—Henry Radford keeps his books by double entry, and requests you to prepare his Trading Account for the year 1910. He gives you the following information:—Stock Jan. 1, 1910. £500; stock Dec. 31, 1910, £1,500; returns inwards £40; sales £3,050; returns outwards, nil. He is unable to tell you the total of his purchases for 1910 owing to the fact that the Purchases Account has been torn out of his Ledger. He tells you, however, that at Jan. 1, 1910, he owed £1,550 to his trade creditors for goods bought, that he has paid them £2,600 in cash during the year, and has accepted their bills for £1,250 during the year, also that he owes them £1,200 at the end of the year. Ascertain his purchases for the year, and then prepare his Trading Account.—*Answer.* Purchases £3500; Gross Profit £510.

Exercise 91.—In closing the books of Robert Sawyer you find the undermentioned items. How would you deal with these transactions when preparing the Annual Accounts for the year ended Dec. 31, 1904? (i) Fire insurance premium (£50) paid on June 30, 1904, covering the twelve months to June 30, 1905. (ii) Salaries (£125) accrued due to A, B, C, but not yet drawn by them. (iii) R. Robinson paid £100 in advance in full settlement for work which was being executed for him under a contract. The cost of the work completed up to Dec. 31, 1904, amounted to £39, when it was estimated that half the contract had been completed. (iv) Patents Account showed a debit balance of £557 7s. This amount consisted of Patent rights (6 years to run) purchased for £550, and renewal fees for the year 1904, £7 7s. (v.) Three years ago Robert Sawyer bought a milling machine for £200, and depreciation at the rate of 10 per cent. upon the diminishing balance has been written off each year; the same machine, however, can now be bought for £120 owing to improvements in manufacture. (*London Chamber of Commerce; Senior, 1905.*)—*Answer.* (i) Carry £25 forward as an asset. (ii) Reserve £125 as owing. (iii) £11 estimated profit may be taken credit for, but it is often safer to leave matters over until completion. (iv) Write off £7 7s. plus (say) $\frac{1}{4}$ th of £550. (v) Depreciate as usual and ignore external fluctuations.

Exercise 92.—Sometimes provision is made for depreciation of plant by writing off a fixed proportion of the original cost in each year, and sometimes by writing off in each year a fixed percentage of the balance of the account as it stood at the commencement of the period. Supposing that it is desired to write machinery which cost £1,000 down to, say, £600 at the end of the fifth year, state the amount that would be charged against each year's profits under each of these two systems. (*Chartered Institute of Secretaries; Intermediate and Final, 1906.*)—*Answer.* Fixed percentage of original cost 8%; fixed percentage of diminishing balance 9·71%.

Exercise 93.—The following is a Trial Balance extracted from the books of Charles Weeks by his book-keeper. The latter has evidently made several mistakes in preparing it. You are requested to re-draw it in proper form so that the Trial Balance shall show totals which agree.

TRIAL BALANCE, June 30, 1911

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
C. Weeks, Capital Account (Credit Balance)				432	11	10
Freehold land and buildings				500	0	4
Salaries	142	19	6			
Rates and taxes	42	10	9			
Discounts allowed				4	10	2
Discounts received	6	1	9			
Stock, Jan. 1, 1911				361	14	9
Purchases	1,110	16	3			
Return inwards				14	2	6
Sales				2,010	4	9
Furniture and fixtures	32	9	8			
Printing and stationery	36	9	4			
Cash in hand	12	4	9			
Cash at the Bank	241	12	2			
Commission paid				10	10	0
Purchases returns	12	2	2			
General expenses	75	9	8			
Advertising expenses				5	6	6
Creditors: J. Brown				109	10	0
W. Jones				120	5	6
Debtor: W. Harris	100	0	0			
	£1,812	16	0	£3,568	16	0

Answer. Trial Balance Totals = £2,690 16s.

Exercise 9s.—From the following particulars, extracted from the books of O. Lawrence, prepare his Trading Account for the year ended Dec. 31, 1910:—Stock of goods in hand, Jan. 1, 1910, £11,246 9s. 8d.; sales for the year, £68,109 11s. 3d.; purchases for the year, £66,242 12s. 9d.; returns outwards for the year, £1,842 19s. 8d.; stock of goods in hand Dec. 31, 1910, £12,899 1s. 3d. Show also the Journal Entries which are necessary in order to deal with the Stock, Sales, Purchases, and Returns Outwards Accounts in O. Lawrence's Ledger.—*Answer.* Gross Profit £5,362 9s. 9d.

Exercise 9r.—From the following particulars, extracted from the books of C. Cooper, prepare a Trading Account for the year ended December 31, 1910:—Purchases on credit for year, £7,219 8s. 4d.; purchases for cash for year, £108 14s. 6d.; stock, Jan. 1, 1910, £8,642 11s. 1d.; stock, Dec. 31, 1910, £3,055 0s. 10d.; sales returns for year, £133 4s. 6d.; sales on credit for year, £13,866 4s. 9d.; cash sales for year, £1,029 8s. 3d.; returns outwards for the year, £521 4s. 2d.—*Answer.* Gross Profit = £2,367 19s. 7d.

Exercise 9t.—From the following particulars prepare the Trading Account, and the Profit and Loss Account of C. Willis, for the year ended December 31, 1911:—Stock of goods in hand, Jan. 1, 1911, £3,096 10s.; sales £35,932 15s. 1d.; purchases £34,364 3s. 9d.; returns inward £3,921 0s. 3d.; returns outward £2,091 17s. 10d.; wages £425 16s. 4d.; salaries £394 12s. 1d.; postages £38 17s. 9d.; discounts received £365 2s. 8d.; discounts allowed £39 4s. 2d.; rent, rates, and taxes £274 9s. 8d.; general expenses £214 0s. 11d.; telephone subscription £36 10s.; stock of goods on hand Dec. 31, 1911, £4,114 2s. 6d.—*Answer.* Gross Profit = £757 1s. 5d.; Net Loss = £301 6s. 10d.

Exercise 9v.—From the following Trial Balance which has been extracted from the books Mr. Wiggins make out—

1. A Trading Account for the year ended December 31, 1911.
2. A Profit and Loss Account for the same period.
3. The Journal entries which are necessary for the construction of these two accounts.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash in hand	150	2	6			
Stock, Jan. 1, 1911.....	1,042	12	9			
Purchases.....	3,331	11	2			
Freehold land and buildings.....	1,028	16	10			
Returns inwards	14	2	8			
Salaries.....	284	2	10			
Rent, rates, and taxes.....	188	17	8			
Telegrams, postages, and telephone sub- scription.....	14	3	6			
Sales.....				4,086	2	10
Debtors: C. Brown.....	114	11	0			
W. Hayes.....	39	0	10			
R. Norris.....	221	4	8			
Creditor C. Finmore.....				100	5	6
General Expenses.....	111	4	2			
Discount.....	36	8	5			
Commissions received.....				5	5	6
H. Wiggins's Capital Account.....				2,385	4	9
	£1,570	18	7	£1,570	18	7

Note.—Value of stock of goods in hand December 31, 1911 = £1,212 8s. 6d.—*Answer.* Gross Profit = £910 4s. 9d.; Net Profit = £280 14s. 1d.

Exercise 9w.—The following is the Trading Account of Arthur Rance, a merchant, as prepared by his book-keeper. The latter's knowledge of book-keeping is slight, and the amount of the gross profit arrived at is evidently incorrect. You are requested to correct the mistakes appearing in the statement, and to withdraw it in proper form.

ARTHUR RANCE.

TRADING ACCOUNT for the year ended December 31, 1910.

1910.		£	s.	d.	£	s.	d.	1910.		£	s.	d.	£	s.	d.
Dec. 31	To Purchases	724	2	9				Jan. 1	By Stock in hand at						
	Add Returns								Jan. 1,						
	Inwards ..	6	2	5					1910				200	14	9
	Add Stock in hand at Dec. 31, 1910.....	198	4	11				Dec. 31	„ Sales.....	1,059	2	6			
					928	10	1		Less Returns Outwards...	4	2	9			
	To difference between the two sides, being the balance of Gross Profit												1,054	19	9
					£27	4	5								
					£1,255	14	6						£1,255	14	4

Answer. Gross Profit = £330 10s. 3d.

716 BOOK-KEEPING AND ACCOUNTS

Exercise 9x.—The following is a Trial Balance extracted from the books of H. Wood. Several items, however, are entered on the wrong side. Correct the Trial Balance so that the totals agree.

TRIAL BALANCE, *September 30, 1910.*

	£	s.	d.	£	s.	d.
H. Wood, Capital Account				1,972	10	3
Freehold Land and Buildings				750	0	0
Salaries	73	19	3			
Rates and Taxes	42	0	2			
Discounts allowed				10	17	4
Discounts received	19	19	2			
Stock, July 1, 1910				1,349	16	3
Purchases				864	6	3
Returns Inwards	11	13	7			
Sales	1,590	16	3			
Furniture and Fittings	50	0	0			
Printing and Stationery	22	4	9			
Cash at Office				11	16	3
Cash at Bank	229	14	7			
General Expenses				22	0	4
Sundry Debtors	492	6	3			
Sundry Creditors				347	9	4
	<u>£2,532</u>	<u>14</u>	<u>0</u>	<u>£5,328</u>	<u>16</u>	<u>0</u>

Answer. Correct total of Trial Balance = £3,930 15s.

Exercise 9x.—The following is the Trading Account of Balham Brown, a trader, as prepared by his book-keeper. The latter has evidently no proper knowledge of book-keeping, and there are several errors in the account. You are required to draw up the account correctly.

BALHAM BROWN,

Trading Account for the Year Ended
Sept. 30, 1910.

1910.	£	s.	d.	1909.	£	s.	d.
Sept. To Purchases	693	0	7	Oct. 1 By Stock .	220	6	2
30 Add Returns				1910			
inwards .	14	7	0	Sept. Sales			
Add Stock at				30	£820	7s.	2d.
30/9/10 .	517	6	3	Less			
				Returns			
				Outwards			
				£17	0s.	3d.	
							= 803 6 1
				Difference—			
				being			
				Balance of			
				Gross Profit .	207	0	9
	<u>£1,230</u>	<u>13</u>	<u>10</u>		<u>£1,230</u>	<u>13</u>	<u>10</u>

Answer. Gross Profit = £420 19s. 11d.

Exercise 9z.—From the following particulars prepare the Trading and Profit and Loss Accounts of H. Rainbow for the six months ended Dec. 30, 1909:—Stock, July 1, 1909, £1,473 6s. 2d.; sales £4,763 9s. 8d.; purchases £3,631 17s.; returns inwards £127 0s. 9d.; returns outwards £47 9s. 9d.; wages £322 0s. 7d.; salaries £207 6s. 3d.; postages £69 0s. 3d.; rents, rates, and taxes £473 6s. 3d.; general expenses £221 4s. 1d.; stock, Dec. 31, 1909, £807 6s. 3d.—*Answer.* Gross Profit = £64 1s. 2d.; Net Loss = £906 15s. 8d.

CHAPTER X

Exercise 10E.—1. Enter the following Statements and Transactions in Invoice Book (Purchases Book), Sales Book, Cash Book (having Bank and Office columns); or journalize. (N.B.—All cheques to be treated as bank transactions.) 2. Post these entries into the Ledger. 3. Balance the accounts. Ascertain how much cash I have both at the office and in the bank; also how much is owing to me and by me. Find the gain or loss in trading by means of a Goods Account (Trading Account), the net gain or loss by a Profit and Loss Account; the net capital by means of a Balance Sheet. (N.B.—A Trial Balance is not desired, as the time is limited.) On July 1, 1905, my books showed the following:—Liabilities—I owe Finch & Son £72 10s. Assets—I have cash at bank £765; I have cash at office £56 10s.; goods valued at £567 15s.; L. Martin owes me £48 5s.

TRANSACTIONS.—1905. July 3, sold goods to Wren & Rooke £96 15s.; bought goods and paid by cheque £124 12s.; July 5, paid Finch & Son by cheque £72 10s.; sold goods to R. Swan £85; July 8, L. Martin paid me in cash £28 5s.; sold goods to Wren & Rooke £73 15s.; bought goods of Drake & Co. £136 12s. 6d.; July 12, received from Wren & Rooke, cash £26 5s., by cheque £120 (discount allowed £3 15s.), £150; July 15, sold goods to L. Martin £67 7s. 6d.; sold goods for cash up to this date £149 8s.; sent cash to bank £175; July 18, sold goods to R. Swan £54; received from R. Swan, cash £39, and his acceptance at 3 months for £100,* £139; July 20, paid Drake & Co., by cheque £114, and was allowed as discount £6, £120; July 24, bought goods of Finch & Son £217; sold goods to Wren and Rooke £105; July 28, paid Finch & Son, by cheque £152, and was allowed discount £8, £160; Wren & Rooke paid to my bank account, £97 10s. (discount allowed £2 10s.), £100; July 31, sold goods for cash up to this date £132 16s.; sent cash to bank £150; paid wages, etc., in cash during the month £48 15s.; estimated value of goods on hand £356. (*College of Preceptors; Junior, Christmas, 1905.*)—*Answer.* Gross Profit £74 2s.; Final Capital £1398 2s.

Exercise 10F.—(N.B.—The dates and the initials of names should be given.) 1. Enter the following statements and transactions in Invoice Book (Purchases Book), Sales Book, Cash Book (having Bank and Office columns); or journalize. (N.B.—All cheques to be treated as bank transactions.) 2. Post these entries into the Ledger. 3. Balance the accounts. Ascertain how much cash I have both at the office and in the bank; also how much is owing to me and by me. Find the gain or loss in trading by means of a

* Debit this £100 to an asset account entitled "Bills Receivable," and credit a like amount to R. Swan.

Goods Account (Trading Account); the net gain or loss by a Profit and Loss Account; the net capital by means of a Balance Sheet. (N.B.—A Trial Balance is not desired, as the time is limited.) On July 1, 1906, my books showed the following results; Liabilities—I owe Field & Co. £95 15s. Assets—I have cash at bank £345; I have cash at office £27 10s.; goods valued at £864; C. Dale owes me £36 5s.

TRANSACTIONS.—1906. July 2, sold goods to G. Heath £48 10s.; sold goods for cheque (sent to bank) £56 15s.; July 4, paid Field & Co., by cheque £91 (discount allowed £4 15s.), £95 15s.; sold goods to C. Dale £67 10s.; July 7, bought goods and paid by cheque £125; sold goods to K. Lea £72 8s.; July 10, received from C. Dale cash £53 15s.; paid rates and taxes in cash £22 10s.; July 14, sold goods for cash up to this date £132 5s.; sent cash to bank £150; July 16, sold goods to G. Heath £84 12s.; received from G. Heath, cash £97 10s. (discount allowed £2 10s.), £100; July 20, sold goods and was paid by cheque £45 6s.; bought goods of Field & Co. £146 10s.; sold goods to K. Lea £37 16s.; July 24, bought goods for cash £52 10s.; July 28, K. Lea paid me by cheque £65; paid Field & Co. by cheque £75; July 31, sold goods for cash up to this date £115; sent cash to bank £136; paid wages, etc., in cash during the month £33 15s.; estimated value of goods on hand £612. (*College of Preceptors; Junior, Christmas, 1906.*)—*Answer.* Gross Profit £84 2s.; Net Profit £30 2s.; Final Capital £1207 2s.

Exercise 10c.—From the following Trial Balance prepare Henry Brown's Trading and Profit and Loss Account for the half year ended Dec. 31, 1910, and his Balance Sheet as on that date.

	Dr.	Cr.
Capital		£3,350
Purchases	£6,000	
Sales		8,500
Freehold Premises	1,000	
Bills Receivable	550	
Sundry Creditors		1,250
Bills Payable		2,000
Sundry Debtors	3,540	
Stock July 1, 1910	2,000	
Returns Inwards	20	
Salaries	750	
Printing and Stationery	150	
Rent, Rates and Taxes	300	
Insurance	10	
Electric Light	25	
Telephone Subscription	20	
Furniture and Fittings	150	
Cash at Bank	565	
Cash in Hand	20	
	<u>£15,100</u>	<u>£15,100</u>

NOTES.—Stock on hand Dec. 31, 1910, £1200. Write £15 off Furniture and Fittings, and reserve £110 for Bad and Doubtful Debts.

Answer. Gross Profit £1680; Net Profit £300: Final Capital £3650.

Exercise 10H.—Walter Robinson started business on Jan. 1, 1898, with £500 cash capital. During the next three months he purchased goods costing £682, and sold five-sixths of these for £700 cash; on March 31, of the goods purchased £82 worth had not been paid for, the remainder having been paid for as follows: bill payable, due April 20, £400, cash £200. His expenses during the three months (all of which had been paid for in cash) had amounted to £142. Enter the above transactions in Robinson's Cash Book and Ledger only, and draw Profit and Loss Account and Balance Sheet as on March 31, 1898. (*Civil Service Commissioners; Assistant Surveyor of Taxes, January, 1901.*)—*Answer.* Gross Profit £131 13s. 4d.; Net Loss £10 6s. 8d.; Final Capital £489 13s. 4d.

Exercise 10I.—John Smyth carries on business as a cigar manufacturer. Prepare his Profit and Loss Account and Balance Sheet from the following Trial Balance at December 31, 1895.

	£	£
Capital (January 1895)		6,000
Withdrawals	1,000	
Sales		10,000
Tobacco (bought)	2,000	
Loan on Mortgage		1,000
Machinery and Plant	1,500	
Land and Buildings	2,000	
Creditors		500
Wages	5,000	
Debtors	1,500	
Boxes, Labels, etc.	500	
Rates and Taxes	40	
Bills Receivable	300	
Insurance	10	
Carriage	150	
Incidental Expenses	200	
Stock Dec. 31, 1894	2,000	
Cash at Bank	1,250	
Cash in Hand	50	
	<u>£17,500</u>	<u>£17,500</u>

Charge depreciation Land and Buildings	2½ per cent.
" Machinery and Plant	5 "
Interest to be allowed on Capital*	5 "
" on Loan (one year)	5 "
Provision for Bad Debts and Discounts	5 "
Stock Dec. 31, 1895	£1,500.

(*Institute of Chartered Accountants; Intermediate, June, 1898.*)

Answer. Net Profit £1050; Final Capital £6350.

Exercise 10J.—From the following Trial Balance prepare Trading Account, Profit and Loss Account, and Balance Sheet as at March 31, 1907.

* Debit Profit and Loss Account and Credit Capital Account with £300.

Trial Balance, March 31, 1907.

	£	£
Stock April 1, 1906	9,000	
Capital		15,000
Purchases	30,000	
Commission	500	
Salaries	1,000	
Rent, Rates and Taxes	400	
Bad Debts	500	
Office Expenses	300	
Sales		33,000
Furniture and Fittings	3,000	
Sundry Debtors	5,000	
Bank	2,000	
Cash in Hand	100	
Drawings	800	
Creditors		4,600
	<u>£52,600</u>	<u>£52,600</u>

The value of the Stock on March 31, 1907, was £9500. Provide for Depreciation of Furniture, etc., at 10 per cent. per annum. (*Chartered Institute of Secretaries; Intermediate, June, 1907.*)—*Answer.* Gross Profit £3500; Net Profit £500; Final Capital £14,700.

Exercise 10K.—A. From the following Trial Balance, etc., prepare Trading Account, Profit and Loss Account, and Balance Sheet of James Robinson, manufacturer.

Trial Balance, December 31, 1906.

	£	£
Capital Account		10,000
Plant and Machinery	4,000	
Debtors	2,400	
Creditors		1,200
Drawings	1,000	
Purchases of Raw Materials	10,000	
Wages (productive)	5,000	
Bank	1,000	
Repairs	50	
Stock on Jan. 1, 1906:		
Materials	800	
Finished Goods	1,200	
Rent	400	
Sales		16,000
Manufacturing Expenses	800	
Warehouse and Office Expenses	700	
Bad Debts	200	
Carriage	150	
Bills Payable		500
	<u>£27,700</u>	<u>£27,700</u>

On Dec. 31, 1906, the stock of raw materials was valued at £600, and the stock of finished goods at £850. Provide for depreciation of plant and machinery at 10 per cent. per annum. Reserve an additional £200 for bad and doubtful debts.

B. What is a reserve fund? When is it desirable that it should

be represented by investments outside the business, and when (if ever) is it permissible that it should be invested in the business?

What entries must be made in the books of a company (a) to transfer £1,000 profits to Reserve Fund, (b) to invest a Reserve Fund of £1,000 in Consols at 85½? (*Chartered Institute of Secretaries; Final, June, 1907.*)—*Answer.* A. Gross Loss £350; Net Loss £2,450; Final Capital, £6,550. B. (a) Debit Profit and Loss Account; Credit Reserve Account. (b) Debit Consols Account; Credit Cash Account.

Exercise 10L.—Prepare Final Accounts of John Combine, steel merchant, on Dec. 31, 1903. Stock, at Dec. 31, 1903, valued at £3,500. Write off £400 Bad Debts, and maintain a Reserve of 5 per cent. on the remaining debtors' balances to allow for doubtful debts. Depreciate Plant 10 per cent. Allow interest on Capital at 5 per cent. per annum. Combine introduced an extra £500 capital on Dec. 1.

Trial Balance, December 31, 1903.

DR.		CR.	
Stock . . .	£9,600	J. Combine, Capital. . .	£5,000
Wages (P. & L. A/c.) . .	3,200	Bills Payable . . .	500
Railway Charges, etc. . .	500	The Consolidated Bank . .	400
Purchases . . .	12,000	Sales . . .	25,000
Interest on Overdraft . .	20	Reserve for Bad Debts . .	500
Bills Receivable . . .	600	Discount on Purchases . .	400
Rents, Rates, etc. . .	200	Sundry Creditors . . .	2,330
Plant and Machinery . .	2,000		
Travelling Expenses . .	500		
Repairs to Plant . . .	160		
Cash . . .	200		
Discount on Sales . . .	500		
Returns . . .	100		
Sundry Debtors . . .	3,500		
Office Expenses . . .	500		
Income Tax . . .	50		
Drawings as against Profits . . .	500		
	<u>£34,130</u>		<u>£34,130</u>

(*National Union of Teachers; Advanced, 1904.*)

Answer. Gross Profit £6,800; Net Profit £1,087 18s. 4d.; Final Capital, £5,815.

Exercise 10M.—John Robinson's Balance Sheet at Dec. 31, 1905, gives his capital as standing at credit £10,000, while his Drawing Account, owing mainly to heavy losses and bad trade, shows an accumulated debit balance of £4,206 5s. 6d. In addition to this his stock is overvalued to the extent of £3,050 6s. 6d., and he has omitted to provide a reserve for bad and doubtful debts of 2½ per cent. on £10,750, say £268 15s. on debtors on Open Account, and which the position of them certainly requires. He has, further, given his name to Accommodation Bills to the extent of £8,500, on which he stands to be called upon to pay 5s. in the £, say, £2,125. State whether, on these figures, you consider John Robinson to be solvent, and, if so, to what extent. (*Institute of Bankers; Final, April, 1906.*)—*Answer.* Solvent by £349 13s.

Exercise 10x.—From the following balances, which were extracted from the books of Charles Martin on June 30, 1910, prepare (1) a Trial Balance as at that date; (2) a Trading and Profit and Loss Account for the half-year, and (3) a Balance Sheet as on June 30, 1910. Cash at the Bank £100 14s. 8d. Debtors—W. Brown & Sons £113 8s. 8d. Creditors—A. Child £10; C. Rowe £60 12s. 9d. purchases £1,488 11s. 9d.; stock-in-trade, Jan. 1, 1910, £200; salaries and wages £214 12s. 6d.; general expenses £86; freehold land and buildings £650; rates and taxes £22 4s. 2d.; sales £2,004 2s. 6d.; capital (credit balance) £800 16s. 6d. *Note:* The stock-in-trade as on June 30, 1910, was valued at £100 2s. 8d. —*Answer.* (1) Trial Balance totals = £2,875 11s. 9d.; (2) Gross Profit = £415 13s. 5d., Net Profit = £92 16s. 9d.; (3) Capital = £893 13s. 3d.

Exercise 10o.—From the following particulars prepare the Balance Sheet of John Hall as on June 30, 1910, showing therein the amount of his capital at that date: Stock-in-trade £1,222 8s. 10d. Debtors (1) C. Brown £122 2s. 8d.; (2) H. Brougham £112 8s. 2d.; (3) M. Wild & Co. £12 18s. 8d. Creditors—(1) C. Wray £121 2s. 8d.; (2) Daphne, Ltd. £188 12s. 2d.; (3) The Pericles Process Co. £188 8s. 2d.; freehold land and buildings £880; plant and machinery £280 2s. 10d.; fixtures and furniture (at cost) £600; stock of loose tools and patterns £80 10s.; patent rights (at cost) £300 10s. 6d.; loan from the Bank £1,000; cash at the Bank £322 4s. 4d.; cash in hands of cashier £12 2s. 2d. —*Answer.* Capital = £2,447 5s. 2d.; Balance Sheet totals = £3,945 8s. 2d.

Exercise 10p.—From the following particulars prepare the Trading and Profit and Loss Accounts for the half-year ended June 30, 1911, and a Balance Sheet as on that date. The stock as on June 30, 1911, was valued at £612 13s. 4d.

C. LESLIE.

TRIAL BALANCE, June 30, 1911.

			Dr.			Cr.		
	£	s.	d.	£	s.	d.		
1 Capital Account				1,206	10	3		
2 Freehold premises	655	10	0					
3 Furniture, fittings and fixtures	41	4	5					
4 Lightwood Bros., Ltd.	177	10	0					
5 W. Miles	79	14	9					
6 Garcia Bros.				5	5	0		
7 Sasso & Escobal				154	6	6		
8 Arrietta & Co.				584	5	10		
9 Salaries and wages	19	10	0					
10 Stationery	1	4	9					
11 Postage and telegrams	5	8	9					
12 Discount and allowances	4	9	4					
13 General expenses	5	12	2					
14 Carriage	3	2	6					
15 Stock in hand (Jan. 1, 1911) ..	686	3	5					
16 Purchases	323	0	0					
17 Sales				525	13	8		
18 Returns Inwards	18	16	5					
19 Returns Outwards				19	15	0		
20 Travelling expenses	4	8	7					
C.B. Cash at Bank	438	10	5					
C.B. Cash in hand	12	1	0					
P.C. Petty Cash	20	0	0					
	£2,496	2	3	£2,496	2	3		

Answer. Gross Profit = £130 2s. 2d.; Net Profit = £86 11s. 1d.; Balance Sheet totals = £2,037 4s. 8d.

CHAPTER XI

Exercise 11A.—John Barleycorn bought the Holly Tree Inn freehold with the furniture, fittings, wines and spirits, provisions, etc., and began business Dec. 1, 1902, as hotel proprietor. His capital consisted of £8,000 at the Town Bank, Ltd. Pass the following transactions through the proper books to the Ledger; balance the accounts and make out a Trial Balance. All receipts and payments are made through the Bank, except where stated otherwise. Dec. 1, executed conveyance of the freehold property, for which he paid £4,000; drew and cashed cheque (for petty cash) £50; Dec. 3, paid £950 for furniture and fittings, £600 for stock of wines and spirits, and £80 for stock of provisions, as per agreed valuation; Dec. 4, bought provisions from James Bacon (on credit) for £121 5s.; Dec. 5, bought groceries for £3 9s. 6d. (petty cash); Dec. 8, bought cigars from John Wilkinson (on credit) for £48 10s.; paid servants' wages £10 10s. 6d. (petty cash); Dec. 10, banked £29 1s. 6d. received from visitors, and £38 1s. 9d. Bar and Billiard Room receipts; Dec. 15, paid servants' wages £10 10s. 6d. (petty cash); Dec. 17, sent J. Bacon cheque in settlement of account, less 5% discount allowed; banked £41 8s. 4d. received from visitors, and £49 10s. from Bar and Billiard Room; Dec. 18, paid Poor Rate £12 8s.; Dec. 19, changed a visitor's £10 cheque and paid same into Bank; Dec. 22, bought on credit two carpets of Turkey & Co. for £24; paid servants' wages £10 10s. 6d. (petty cash); Dec. 23, gave J. Wilkinson cheque in settlement, less 10% discount; drew and cashed cheque (for petty cash) £25; withdrew £25 from Bank for private purposes; distributed £10 (petty cash) as Christmas boxes; Dec. 24, banked £33 2s. 8d. received from visitors, and £65 2s. 6d. from Bar and Billiard Room; bought from Phiz & Co. a case of 3 doz. champagne at 70s. per doz. (on credit); sold on credit wines and cigars to George Ash for £10 10s.; Dec. 29, paid servants' wages £10 10s. 6d. (petty cash); Dec. 30, received cheque from G. Ash in settlement, less 5% discount; Dec. 31, banked £45 3s. received from visitors, and £70 4s. 2d. from Bar and Billiard Room; returned one carpet (£10) to Turkey & Co., not in order; paid manager's salary £10. (*Royal Society of Arts*, 1903.)—*Answer.* Trial Balance Totals, £8,447 1s. 8d.

Exercise 11B.—John Shaw opened an account with The Dales Bank, Ltd., by paying in £4200 on Oct. 12th, 1903, and bought (by cheque) the following day the Duchess Slate Quarry from W. Black, the price (after valuation) being:—Freehold Land and Quarry £2,350, Stock of Slates £200, and Machinery, Plant, Tools, &c. £350. All receipts are paid into the Bank, and (except where stated) all payments are made by cheque. Pass the above and the following transactions through the proper books to the Ledger; balance the accounts; bring down the balances and extract a Trial Balance. Oct. 14, drew and cashed cheque (for petty cash) for £20; Oct. 16, bought machinery from Gray & Co. for £45. Gave them his acceptance at 1 month, which was honoured; Oct. 19, sold G. Hill 3,500 slates at £7 8s. per 1,000; bought 2 cwt. drills from Sheffield Steel Co. at £20 ton; Oct. 21, paid Rates £6 10s. 4d.; Oct. 23, sold Parker & Co. 1,600 slates at £7 4s. 2d. per 1,000; Oct. 24, drew cheque £73 7s. 9d. for wages, and paid the same; banked cash

received for cartage £4 2s. 6d.; Oct. 27, made G. Hill an allowance for 250 broken slates (invoiced Oct. 19), made a claim upon the Railway Co. for amount; Oct. 28, received cheque from G. Hill in settlement of account, less 5% discount; bought 3 tons rails at £5 a ton from Rotherham Forge Co.; Oct. 29, sold Parker & Co. 1,500 slates at £7 4s. per 1,000; Oct. 31, sold D. Green 4,200 slates at £8 3s. 4d. per 1,000; drew cheque and cashed same (for Petty Cash) for £11 15s. 4d., the Petty Cash being kept upon the "Imprest" system; paid manager's salary for the month £30; drew cheque for £68 3s. 7d. for wages, and paid the same; Nov. 5, received cheque £10 from Parker & Co. (on account); bought oil and other stores from Slippery & Co. for £4 10s.; Nov. 6, paid Sharp & Co. cheque £21 for legal charges; Nov. 7, Parker & Co.'s cheque for £10 returned by the bankers, dishonoured, the bank charges being 1s.; drew cheque £70 8s. 4d. for wages, and paid the same; banked cash received for cartage £7 14s.; bought 10 cwt. of blasting powder at £5 a ton from Dynamite & Co., Ltd.; Nov. 10, received cheque from Parker & Co. for £10 (on account); Nov. 16, bought timber from D. Green for £16; Nov. 19, received cheque from Railway Co. for full claim made Oct. 27; Nov. 21, drew cheque for self for private purposes £20, and cashed; drew cheque £62 17s. 6d. for wages and paid same. (*Royal Society of Arts; Intermediate*, 1904.)—*Answer*. Trial Balance Totals, £4,318 7s. 2d.

Exercise 11c.—On Jan. 1, 1906, John Smith's position is as follows:—**ASSETS:** Stock £342 4s. 7d.; Freehold Property £1000; Furniture and Fittings £92 10s. 4d.; Cash at Bank £25 8s. 9d.; in hand £19 5s. 2d.; owing by John Bell £38 10s.; E. Walters £26 2s. 3d.; Black & Co. £169 10s.; **LIABILITIES:** To A. Brown & Co., Ltd., £64 2s.; W. White & Son £226 7s. 1d.; Bills payable £60; Loan due to G. Robinson £50. Open the Ledger, showing the position as on Jan. 1, and pass to it, through the proper books, the following:—Jan. 2, accepted Bill drawn by W. White & Son for the amount of their account at 3 months; sold to John Bell one electrically-heated stewpan £1 19s., two omelet pans at £1 10s. each, three saucepans at £1 10s. each, three hot-water plates at £3 each, one hot-water jug £1 7s. 6d., and one kettle £4 5s.; received from Black & Co. £50 on account; Jan. 3, drew a cheque for £10 for private purposes; Jan. 4, John Bell returned one saucepan and one hot-water plate sold to him on Jan. 2, and settled his account as on Jan. 1, less 2½% discount; Jan. 5, sold F. Green 3 electrically heated water cans at 60s. each, 6 flat irons at 19s. 6d. each, and 1 glue pot 27s. 6d.; bought from A. Brown & Co., Ltd., five electrically heated Russian coffee machines at £1 17s. 6d. each, 6 egg boilers at £1 15s. each; three sterilizers at £1 12s. 6d. each, and one convector at £7 15s.; Jan. 6, bought for cash two office stools at £1 10s. each; Jan. 7, drew cheque for petty cash and wages £10; paid in cash, wages £14 2s. 6d., and salaries £3; paid in cash, office expenses 14s. 10d.; Jan. 9, bill payable for £60 (due this day) was duly honoured on John Smith's behalf by the Bank; sundry cash sales for week ended Jan. 7, amounting to £27 2s. 9d., paid into the Bank; Jan. 10, bought for £3 a carpet for the private office; returned to A. Brown & Co., Ltd., two egg boilers and one sterilizer bought from them on Jan. 5; Jan. 11, received from Black & Co. the balance of their account, discount at 2½% being allowed on the whole amount due from them on Jan. 1; Jan. 12, returned carpet purchased on Jan. 10 in exchange for one valued £4, the difference being paid for in cash; Jan. 13, paid cash for repairs to

office desk 7s. 6d.; Jan. 14, drew cheque for petty cash £15, and paid wages and salaries as on Jan. 7; paid in cash, office expenses £2 7s. 2d.; Jan. 14, paid into Bank cash sales for week £41 15s. 6d.; paid A. Brown & Co., Ltd., £12 on account. All moneys received were at once paid into the Bank; and (unless stated otherwise) all payments were by cheque. Balance the accounts as on Jan. 14, 1906; bring down the balances and extract a Trial Balance. Note that no Profit and Loss Account or Balance Sheet is to be prepared. (*Royal Society of Arts; Intermediate, 1906.*)—*Answer.* Trial Balance Totals £1,781 15s. 4d.

Exercise 11D.—C. Wray started business as a produce dealer on 30th November, 1910, with £500 cash capital, which he paid into an account with Parr's Bank, Ltd. From the following particulars write up his books, preparing a Profit and Loss Account and Balance Sheet upon their conclusion. N.B.—All cheques received and paid are paid to and drawn from the Bank. 1910. Dec. 1, bought of Brown & Co. on credit 200 cwt. shellac at £3 5s. per cwt. £650; Dec. 2, drew from Bank for office cash, £10; Dec. 3, paid by cheque for office furniture bought £15 2s. 8d.; Dec. 5, sold Holmes Bros. on credit 100 cwt. shellac at £3 10s. £350; Dec. 10, accepted Brown & Co.'s draft at 3 months for £500, paying them by cheque £145, being allowed discount £5; Dec. 10, received from Holmes Bros. their acceptance (No. 1) for £300, cash (paid to Bank) £46, allowed them discount £4; Dec. 14, paid from office cash, salaries to date £4 10s.; Dec. 16, sold Holmes Bros. on credit 100 cwt. shellac at £3 15s., £375; Dec. 17, bought of Brown & Co. on credit 200 cwt. shellac at £3 15s., £750; Dec. 19, discounted with the Bank Holmes Bros.' acceptance (No. 1) for £300, being charged discount £3; Dec. 20, sold to Rowe & Co. on credit 10 cwt. shellac at £4, £40; received cheque from Rowe & Co. on account £25; Dec. 23, paid Brown & Co. by cheque on account £300, being allowed discount £3; Dec. 27, paid from office cash for salaries to date £4 10s.; Dec. 30, paid by cheque sundry general expenses to date £3 8s. 9d.; Dec. 31, Rowe & Co. suspended payment, write off the £15 owing by them as wholly irrecoverable. Value of Stock on hand 31st Dec., 1910, £750.—*Answer.* (Gross Profit £115; Net Profit £88 11s. 3d.; Final Capital £588 11s. 3d.

Exercise 11E.—L. Laurie, shellac and beeswax dealer, found that his position on November 1st, 1910, was as follows:—Cash at Bank £1,062 12s. 8d.; stock in hand: beeswax £154 8s. 9d., shellac £528 9s. 4d.; debtor R. Kay £622 8s. 10d.; creditor Rowe & Sons £1,222 8s. 9d. His transactions for November 1910 were as follows:—Nov. 1, drew from Bank for office cash £30; Nov. 2, sold R. Kay 100 cwt. "R.K." shellac at £4 per cwt., less 2½% trade discount; Nov. 3, bought of Rowe & Sons 150 cwt. button shellac at £4 per cwt.; Nov. 4, paid R. Rowe & Sons by cheque on account £500, being allowed discount £5; Nov. 7, sold to Hays Bros. 30 cwt. button shellac at £4 10s. per cwt.; Nov. 8, bought of Rowe & Sons 100 cwt. bleached beeswax at £7 per cwt.; Nov. 9, sold to Meyer & Co. 100 cwt. bleached beeswax at £8 10s. per cwt.; received from Hays Bros. acceptance at 2 m/d for £100, cheque (paid to Bank) for £20, cash (placed in office cash) £13, allowed them discount £2; Nov. 12, sold for cash by auction 100 cwt. button shellac for £445 10s., and paid same to Bank; Nov. 14, paid Rowe & Sons by cheque £706 5s., being allowed discount £11 3s. 9d.;

Nov. 15, discounted with the Bank Hays Bros.' acceptance due Jan. 11th, 1911, for £100, being charged discount 15s. 6d.; Nov. 17, paid from office cash, salaries to date £10, printing and stationery £5 2s. 2d.; returned to Rowe & Sons, as not up to sample, 2 cwt. of the beeswax bought on Nov. 8th, being allowed therefor at £7 per cwt.; Nov. 25, sold for cash 10 cwt. (grade 3) shellac for £35 16s., received cheque for this amount, and paid same to Bank; Nov. 29, sold to Rees Bros., Ltd., 10 cwt. beeswax at £8 per cwt.; Nov. 30, paid by cheque, salaries to date £14 10s., paid from office cash, sundry petty expenses to date £7 2s. 6d., paid from office cash £10 into Bank. From the foregoing particulars write up L. Laurie's books for the month of November, preparing a Trial Balance, Trading and Profit and Loss Accounts, and a Balance Sheet at their conclusion. The following provisions are to be made under date November 30th:—(a) set aside £40 as a reserve for bad and doubtful debts, (b) allow £12 10s. for sundry expenses owing, but not paid, the statements not having yet come in from the various creditors concerned. The Trading Account is to show separately the gross profit made on beeswax and shellac, and the various books subsidiary to that account are to be shown with analysis columns for "Beeswax" and "Shellac" respectively. Value of Stocks in hands at Nov. 30th, Shellac £220; Beeswax £10.—*Answer.* Gross Profit: Beeswax £99 11s. 3d.; Shellac £97 16s. 3d. Net Profit £121 11s. 6d. Final Capital £1,267 2s. 4d.

Exercise 11F.—From the following particulars prepare my Trading Account for 1910, showing the gross profit made on each of the two classes of goods dealt in. Stock, Jan. 1, 1910: Beeswax £1000, Shellac £2000; Sales: Beeswax £8100, Shellac £3700; Returns Inwards: Beeswax £500, Shellac £100; Returns Outwards: Beeswax £100, Shellac £200; Purchases: Beeswax £6000, Shellac £3000; Stock, Dec. 31, 1910: Beeswax £1800, Shellac £2000.—*Answer.* Gross Profit: Beeswax £2500; Shellac £800.

Exercise 11G.—Charles Rivers is the sole proprietor of a colliery; from the following particulars prepare his Drawing and Capital Accounts as they appear in his Ledger for the year 1910. The total of his Drawings is to be transferred to his Capital Account at the end of the year, profits being credited direct to the same account:—Balance of Capital Account, Jan. 1, 1910, £3000; Drawings: March 31, £100; April 30, £200; July 25, £200; Sept. 13, £400; Dec. 8, £300; Profit for 1910 (after charging interest on Capital), £850; Interest on Capital, 1 year on £3000 at 5 per cent. £150; ignore interest on Drawings.—*Answer.* Credit Balance, Dec. 31, 1910, £2800.

Exercise 11H.—From the following particulars show my Capital Account as it would appear in my Ledger for the year 1910; Credit Balance on Capital Account, Jan. 1, 1910, £500; Drawings: June 30, 1910, £250; Sept. 30, 1910, £100; Net profit on trading for 1910, £300.—*Answer.* Credit Balance Dec. 31, 1910, £450.

Exercise 11I.—From the following particulars show my Capital Account as it would appear in my Ledger for the year 1910: Credit Balance on Capital Account, Jan. 1, 1910, £1500; Drawings: June 30, 1910, £300; Sept. 30, 1910, £400; Net Loss on trading for 1910 (after allowing for interest on Capital and Drawings), £1300. Allow interest on Capital at 6% per annum and charge interest at the same

rate on Drawings, working interest in months.—*Answer.* Debit Balance Dec. 31, 1910, £425.

Exercise 11J.—On June 1, 1910, S. Dawes commenced business with the following property and debts: Cash at Bank £300; cash in hand £7 14s. 2d.; stock £593 15s. 7d.; premises £800. Debtors—R. Hills £272 15s. 7d.; W. Johnson £33 6s. 3d. Creditors—The Lincolnshire Lace Co., £75 7s. 2d.; A. Seard £330 19s. 7d.; E. Eggesfield £63 9s. 8d. S. Dawes' transactions for the month of June were as follows: June 3, bought on credit from A. Seard, silk £69 19s. 2d., and lace £47 3s. 4d.; June 4, sold to W. Johnson, lace £363, less 5 per cent. trade discount; June 9, received cheque from W. Johnson for the amount of his account, less 2½ per cent. cash discount; June 14, paid trade expenses by cheque £14 19s. 7d.; June 23, sold to L. Biggs, silk £57 9s. 2d., less 5 per cent. trade discount; June 29, bought from M. Pinnett, velvet £33 17s. 5d., and paid for same by cheque, less 5 per cent. cash discount; June 30, paid wages by cheque £15 15s. 6d. Open the necessary books to record the above entries, post them into the Ledger, and balance the accounts as on June 30, 1910.—*Answer.* Initial Capital £1,537 15s. 2d.

CHAPTER XII

Exercise 12E.—(a) A Bill of Exchange is drawn by A.B. upon M.N. in favour of X.Y. It is duly accepted by M.N. On receipt of the bill X.Y. endorses it in favour of Z.Z., to whom he sends it. Explain the liabilities of each of these four parties in connection with the bill. (b) What is meant by dishonouring a Bill of Exchange? (c) I receive a bill from George Hawkins in discharge of a debt he owes me. Explain the entries which I must make in my books (i) when I receive the bill, (ii) when it falls due and is paid. (d) I accept a Bill of Exchange for £70 drawn on me by W. Hill, to whom I owe that amount. Explain the entries which I must make in my books (i) when I accept the bill, (ii) when it falls due and is paid by me. (e) Being in need of ready money, I discount, with my Bankers, a bill for £200 due two months hence. They charge me £1 13s. 4d. for this. Explain the entries which I must make in my books in order to record this transaction.

Exercise 12F.—Pass the following transactions through the proper books (including a Bills Receivable Book to be ruled up by yourself), and make the complete entries which are necessary to comply with the Double-entry system. Oct. 1, 1910, received from A. Bishop & Co. their acceptance No. 1 drawn by me in my own favour payable two months from to-day, at 27, Cheapside, E.C., for £150. Oct. 4, received from Geo. Thomas a Bill of Exchange, No. 2, drawn by myself on him in my own favour, payable ten days after date at 17, Piccadilly, Manchester, dated Oct. 4, 1910, for £300. Oct. 6, received from R. Simpson, Bill No. 3 drawn by me on him in my own favour payable three months after date at the Bank of England, London, dated Sept. 20, 1910, for £175. Oct. 7, I discounted Bill No. 3 with my Bankers, being charged £2 3s. 9d. discount. Oct. 14, Bill No. 2 due to-day, was paid by me into my Bank, but was returned dishonoured, the Bank charging me 2s. for noting expenses.—*Answer.* Bills Receivable Book total £625.

Exercise 12G.—Pass the following transactions through my books in Double-entry form, including a properly ruled Bills Payable Book.

All bills are made payable at my Bankers. The total of the Bills Payable Account is to be posted in its proper place. Oct. 2, 1910, accepted F. Williams' draft two months from date in his own favour, dated Oct. 2, 1910 (Bill Payable No. 46) for £200. Oct. 3, H. Colmer drew on me in his own favour at ten days after date, dated Oct. 3, 1910, for £250, and I accepted the same (No. 47). Oct. 7, accepted F. Martin & Son's draft in their own favour, dated Oct. 6, 1910, payable one month after date (No. 48) for £1,000. Oct. 13, bill payable No. 47 was paid by the Bank.—*Answer.* Bills Payable Book total £1,450.

CHAPTER XIII

Exercise 13E.—From the books of James Bell, which have been kept by single entry, and from other sources, it appears that his position on Dec. 31, 1904, was as follows:—Book Debts £7,000; Cash in hand £10; Stock-in-trade £3,000; Furniture, fixtures and fittings £500; Trade Creditors £2,500; Bank overdraft £1,000. Bell commenced business on Jan. 1, 1904, with a capital of £3,000, and during the twelve months had drawn out £600. Prepare a statement showing Bell's profit for the year 1904, after allowing for depreciation, etc., at 10 per cent. per annum. (*Chartered Institute of Secretaries; Intermediate and Final, June, 1905.*)—*Answer.* Profit £4,560.

Exercise 13F.—The books of a manufacturer, D, are kept by single entry, and you are supplied with the following figures, which have been verified:—Capital Dec. 31, 1904, £9,200; Book Debts Dec. 31, 1905, £8,750; Creditors on open account Dec. 31, 1905, £4,200; Bills Payable Dec. 31, 1905, £470; Cash at bankers £440; Cash in hand £28; Stock £3,272; Plant, fixtures, etc. £2,400; D's drawings from Jan. 1 to Dec. 31, 1905, £920. Make up the Balance Sheet at Dec. 31, 1905, showing the profit made in the year. (*Institute of Chartered Accountants; Intermediate, May, 1906.*)—*Answer.* Profit £1,940.

Exercise 13G.—X, Y, and Z carried on business in the name of X & Co., and their books only contained single entry accounts. On March 31, 1904, a statement of their affairs showed their respective shares in the Capital to be X £8,500, Y £5,800 and Z £3,000. On March 31, 1905, their total Assets were valued at £52,587, and their liabilities amounted to £31,127. Profits and losses after crediting interest at 5 per cent. on Capital were divisible in the proportions of 9, 7, and 4 respectively, and their drawings during the year had been X £675, Y £525, and Z £300. Make out a statement showing the Capital, Interest, and share of Profits of each partner on March 31, 1905. (*Institute of Chartered Accountants; Intermediate, December, 1905.*)—*Answer.* Capital Balances March 31, 1905: X £10,407 15s.; Y £7,243 5s.; Z £3,809.

Exercise 13H.—Raise the necessary accounts, and prepare Trading and Profit and Loss Accounts, and a Balance Sheet on Dec. 31, 1908, from the following particulars:—Assets at Jan. 1, 1908: Cash £1,000; Stock-in-trade £2,000; Debtor—Hill & Co. £1,500. Liability at Jan. 1, 1908: Creditor—J. Smith £1,000. Transactions during the year 1908: Goods bought of J. Smith £13,000; Goods sold to Hill & Co. £16,000; Cash received from Hill & Co. £13,000; Cash paid to J. Smith £10,000; Partners' drawings £1,000; Cash

paid for rent £200; Salaries £500; Office expenses £100. The Stock-in-trade on Dec. 31, 1908, amounted to £3,000. (*Institute of Chartered Accountants; Intermediate, November, 1909.*)—*Answer.* Net Profit £3,200, Final Capital £5,700.

Exercise 13I.—A keeps his books by single entry. On Jan. 1, 1909, his capital was £6,900. An analysis of his cash book for 1909 gives the following particulars:—Debit side: Received from sundry debtors £6,000; Paid in on Capital Account £500. Credit Side: Due to Bank Jan. 1, 1909, £740; Payments to sundry creditors £2,500; General expenses of business £1,000; Wages £1,550; Drawings £300; Balance at Bank Dec. 31, 1909, £400; Balance in hand £10. Debtors at Jan. 1, 1909, were £5,300, and at Dec. 31 were £8,800; Creditors £1,500 and £1,950; Stock £1,700 and £1,900; Plant and machinery £2,000 and £2,000; Furniture and fittings £140 and £140. From the above material prepare a Profit and Loss Account for the year ended Dec. 31, 1909, and a Balance Sheet at that date, after providing 5 per cent. Interest on Capital (ignoring payments in and drawings), 10 per cent. Depreciation on Plant, 5 per cent. Depreciation on Furniture, and a Reserve of 5 per cent. on Sundry Debtors. (*Institute of Chartered Accountants; Intermediate, May, 1910.*)—*Answer.* Net Profit, after charging Interest on Capital, £3,208.

CHAPTER XIV

Exercise 14E.—On Feb. 15 I dispatched goods valued at £21 10s. to A. Train & Sons, Calcutta, to be sold by them on commission. Freight cost me £4 13s. 10d., dock dues £1 19s. 3d., insurance £2 15s., and cartage 15s. 6d. On June 23 I received from Messrs. Train and Sons Account Sales with cheque for £240 13s. 4d., the balance due to me after deducting their expenses and commission. Make the Journal entries necessary to record these transactions and to show the resulting profit or loss. (*University of Cambridge Local Examination; Junior, July, 1909.*)—*Answer.* Profit £208 19s. 9d.*

Exercise 14F.—Journalize the following items: (a) New engine bought for cash £200, allowed for old engine £50. (b) S. W., a debtor, gives a three months' bill for his account £100; one month later he retires his bill for cash £50, less two months at 5 per cent., and gives a fresh bill at two months for the remainder. (c) Consignment to India charged at £80; remitted for: † Cash £69 0s. 4d., difference of exchange 16s. 8d., commission £10. (d) Dividend received upon a debt written off last year as bad £14 3s. 6d. (*Society of Accountants and Auditors; Final, Dec. 1901.*)

Exercise 14G.—(i) A received from B on consignment 600 barrels of flour at 20s. per barrel. He paid freight £25, insurance £5, and storage £5. He sold 300 barrels at 26s. and the remainder at 25s., and charged B a commission of 2½ per cent. on such sales. You are required to show how the above transactions would appear in the books of A. (ii) Taking the facts stated in the preceding question, you are required to show how the transactions would appear in the books of B, assuming that the account is settled by A forwarding to B a bill drawn on C at three months which is duly accepted and met at maturity. (*Chartered Institute of Secretaries; Intermediate and Final, June, 1906.*)—*Answer.* (i) Remittance to B, £710 17s. 6d.; (ii) Profit on B's books taking invoice price as cost £110 17s. 6d.

* This is an extraordinary profit on the turnover!

† Gross proceeds £79 17s.

Exercise 14H.—On October 1, 1910, Brown & Co., of London, shipped to Viscaya Hermanos, of Buenos Ayres, per s.s. *Peixoto*, a consignment of electro-plated articles invoiced at £400, the cost price of the goods consigned, as shown in Brown & Co.'s books, being £335. Brown & Co. paid on October 1, 1910, for freight £11 10s., insurance £7, and packing and sundry charges £1 5s. Viscaya Hermanos received advice of the consignment on Nov. 10th, 1910, and the same day took delivery of the goods from the steamer, paying for Government import duty gold pesos 175, and for landing charges gold pesos 10. The goods forming the consignment were sold as follows: Nov. 15, to Saenz Pena & Co., for cash, gold pesos 1,000; Nov. 16, to Dugano Brothers, on credit, 525; Nov. 16, to Bolivar e Hijo, for cash, 960; total proceeds, gold pesos 2,485. Viscaya Hermanos are entitled to a commission of 5% on sales, plus a del credere of 1 per cent. They made out their Account Sales on Nov. 26, 1910, remitting to Brown & Co. a cheque on London for the sterling equivalent of the net proceeds of the consignment. Dugano Bros. paid them for the goods bought by them on Nov. 25. From the foregoing particulars, (1) show the entries relating to the consignment in Brown & Co.'s books (in sterling). (2) Show the entries relating to the consignment in Viscaya Hermanos' books (in gold pesos). (3) Prepare the Account Sales rendered to Brown & Co. by Viscaya Hermanos (in gold pesos). Assume throughout that the Argentine gold peso is the equivalent of 4s. sterling, and that the remittance to Brown and Co. by cheque was effected at that rate.—*Answer.* Profit on Brown & Co.'s books £75 8s. 7d.; Remittance from Viscaya Hermanos \$2150·90 = £430 3s. 7d.

NOTE.—A gold peso (\$1) is divided into 100 cents.

Exercise 14I.—Make out to John Jones & Co., Liverpool, an Account Sales of 50 kegs of butter marked "C. D." and sold at 84s. per cwt.; gross weight 125 cwt., tare 6 cwt. 2 qrs. The butter was sent by Anskels & Co., Denmark, per s.s. *Jeune*. The following charges are made: Insurance £3; rates £7 10s.; Customs and stamps 15s.; sale expenses £1 10s. 3d.; brokerage 10%; commission 2½%. (*Society of Accountants and Auditors; Inter., June, 1902.*)—*Answer.* Net Proceeds £422 14s. 6d.

Exercise 14J.—The following transactions are stated as they appear in the books of Tomkinson & Co. From them prepare a statement of account current to be rendered by Tomkinson & Co. to R. Heaps, of Cape Town, brought down to July 18, 1910, with interest at 5% per annum:—1910. Jan. 26, sold R. Heaps goods shipped per s.s. *Acores* £6,019 16s. 3d.; Jan. 31, paid R. Heaps' drafts at sight on ourselves in favour of May Bros. & Co. £3,247 3s. 9d.; Feb. 23, sold R. Heaps goods shipped per s.s. *Algarve* £2,054 4s. 2d.; April 2, received from R. Heaps by draft on the Standard Bank of South Africa £1,265 8s. 2d.; May 2, received from Samuelson & Co. for account of R. Heaps £2,084 4s. 2d.; May 4, received from the Bank of Africa, London, for account of R. Heaps £4,849 8s. 1d.; June 13, credited to R. Heaps' account proceeds received this day of a consignment of goods sold by us for his account £151 3s.; June 27, received from R. Heaps for his credit by draft on the African Banking Corporation, Ltd., £1,176 1s. 8d.—*Answer.* July 18, Dr. balance: Principal £1,794 19s. 1d., interest £163 14s. 7d. = £1,958 13s. 8d.

Exercise 14K.—Prepare from the following details an account current to be rendered to the customer. A ships to B on two months' terms from date of invoice (interest at 5 per cent. account current) the following goods, viz.:—1901. Jan. 2, £140; March 18, £312; June 4, £285; Sept. 23, £98; Nov. 6, £176; total £1,011. Payment is made by B as follows: 1901. Feb. 20, £100; May 5, £75; July 31, £200; Oct. 3, £350; and the balance on Jan. 2, 1902. (*Society of Accountants and Auditors; Intermediate, June, 1902.*)—*Answer.* Jan. 2, Balance of Account paid £292 11s. 4d. (including £6 11s. 4d. interest).

Exercise 14L.—The Midland Steel Company, Ltd., consigned to its Australian Agents—Murray & Co., of Sydney—125 tons of steel bars per s.s. *Tantallon Castle*. Murray & Co. paid for landing charges £15, carting £10, warehousing £6, insurance, £1, and advertising £5. On July 1, 1910, they sold the steel by auction, as follows:—

	£	s.	d.	
25 tons at 10	0	0	0	per ton.
30 "	9	10	0	"
30 "	9	5	0	"
40 "	9	0	0	"

They charged commission at 5 per cent. Make out in proper form the Account Sales rendered by Murray & Co. to the Midland Steel Company, Ltd., showing the balance due, for which Murray & Co. sent a Bill at 30 days after sight, and record the transactions in the books of Murray & Co. (*Institute of Chartered Accountants; Intermediate, 1911.*)—*Answer.* Net Proceeds remitted by Bill, £1,076 17s. 6d.

CHAPTER XV

Exercise 15F.—A and B as partners possess £20,000 and £5,000 respectively in a firm. Their gross trading profit is £3,250. By their partnership agreement they divide profits in proportion to their holding after giving B £500 as manager and allowing 5 per cent. interest on capital. A's drawings were £700 and B's £100. Draw up a Profit and Loss Account and separate Partners' Accounts. *Answer.* Capital Accounts: (A) £20,000; (B) £5,000. Current Accounts: (A) £1,500; (B) £950.

Exercise 15G.—Samuel Smith and Robert Brown are partners in a manufacturing business. After providing 5 per cent. per annum interest upon their respective Capital Accounts, profits or losses are to be shared equally. Adjustments are to be made as follows—(1) Plant and Machinery Account is to be depreciated by 10 per cent. per annum. (2) Furniture and Fittings Account 5 per cent. (3) Provision of 5 per cent. on the debtors' balances for bad and doubtful debts. (4) Only three quarters' rent have been paid; the quarter's rent due on Dec. 25, 1905, not having been paid or passed through the books. Stock on Dec. 31, 1905, was valued at £800. The Trial Balance extracted on Dec. 31, 1905, is set out below. Prepare Trading and Profit and Loss Accounts and a Balance Sheet, in which latter show the Partners' Accounts in detail.

Dr. Balances—		Cr. Balances—	
Smith's Drawings (including interest) . . .	£450	S. Smith (Capital Jan. 1, 1905) . . .	£2,000
Brown's Drawings (including interest) . . .	400	R. Brown (Capital Jan. 1, 1905) . . .	1,500
Stock (Jan. 1, 1905) . . .	750	Sales . . .	5,400
Furniture and Fittings . . .	300	Purchases Returns . . .	200
Plant and Machinery . . .	500	Rent to date for premises sub-let . . .	20
Goodwill . . .	1,000	Reserve for Bad and Doubtful Debts . . .	150
Purchases . . .	2,300	Discount . . .	10
Manufacturing Wages . . .	520	Sundry Creditors . . .	720
Carriage . . .	100		
Salaries . . .	350		
Rent . . .	120		
Rates and Taxes . . .	20		
Gas and Water . . .	30		
General Expenses . . .	270		
Sales Returns . . .	150		
Bad Debts . . .	80		
Cash at Bank . . .	500		
Cash in Hand . . .	20		
Sundry Debtors . . .	2,140		
	<u>£10,000</u>		<u>£10,000</u>

—Answer. Gross Profit £2,680; Net Profit £1,503. Capital Accounts: Smith £2,000; Brown £1,500. Current Accounts: Smith £401 10s.; Brown £426 10s.

Exercise 15H.—A, B, and C are in partnership. A's capital is £5,000, B's £3,000, C's £2,000. Profits are to be divided as follows: A one-half, B one-third, C one-sixth, after charging interest upon capital at 5 per cent. per annum and allowing salaries of £400 a year to each partner. The profits of the year available for division as above amount to £3,600. Show the division and adjust the Capital Accounts, taking into account that the drawings of each partner amounted to £300. (*Institute of Chartered Accountants; Intermediate, June, 1901.*) Note: Ignore interest on drawings.—Answer. Capital Accounts: (A) £5,000; (B) £3,000; (C) £2,000. Current Accounts: (A) £1,300; (B) £883 6s. 8d.; (C) £516 13s. 4d.

Exercise 15I.—C. Child and D. Dark were trading in partnership on Dec. 31, 1909, under the firm name of Child & Dark. Child's Capital Account then showed a credit balance of £3,500, and Dark's Capital Account showed a credit balance of £1,000. Each partner was entitled to interest at 6 per cent. per annum on the balance of his Capital Account as stated at the beginning of each half-year. Dark was entitled to a salary of £200 per annum, and the balance of profits was to be shared equally between the partners. (a) For the half-year ended June 30, 1910, the firm's Profit and Loss Account, before allowing for any of the provisions set forth above, showed a loss of £505. Each partner withdrew £500 on June 30, 1910; apart from this no withdrawals took place. Show the Partners' Capital Accounts for the half-year ended June 30, 1910, giving effect to the above directions. (b) The Profit and Loss Account for the half-year ended Dec. 31, 1910, showed a loss of £1,500, before allowing for any of the provisions to be made under the partnership arrange-

ments. Show the Partners' Capital Accounts for that half-year also, giving effect to the directions stated above. No withdrawals took place during this half-year.—*Answer.* (a) Balances, June 30, 1910: Child, Cr. £2,735; Dark, Cr. £260; (b) Balances, Dec 31, 1910: Child, Cr. £1,972 2s. 6d.; Dark, Dr. £477 2s. 6d. (See *N.*, p. 756.)

Exercise 15J.—Jones and Robinson have been carrying on business in partnership during the year ended Dec. 31, 1904. No partnership deed was, however, executed. Capital was introduced into the business as follows: Jones £5,000, Robinson £1,000. Jones, in addition, advanced £1,000 to the firm as a loan, but no agreement was come to between the partners as to the payment of interest upon this loan. The profits for the year ended Dec. 31, 1904, amounted to £3,000, prior to provision for interest, if any, either upon Capital or Loan Accounts. The partners cannot agree, either as to the proportion in which the profits are to be divided, or upon the question of interest. They refer the matter to you, and agree to abide by the accounts prepared by you. How would you divide the profits for the year? (*Institute of Chartered Accountants; Intermediate, May, 1905.*)—*Answer.* Division of Profits: Jones £50 interest and £1,475 profits; Robinson £1,475 profits.

Exercise 15K.—The following is the Trial Balance of A. Jumble and T. Sale on Dec. 31, 1907:—

	DR.	CR.
A Jumble, Capital Jan. 1		£12,000
T. Sale, " " " " " "		9,000
Machinery and Plant	£10,000	
Stock Jan. 1	5,500	
Purchases	22,000	
Salaries	1,000	
Wages	4,500	
Sales		35,000
Debtors	9,000	
Creditors		4,000
Carriage	470	
Rents, Rates, Taxes, and Insurance	1,200	
Discount	30	
A. Jumble, Salary	600	
T. Sale, " " " " " "	400	
Cash at Bankers	4,300	
Repairs	250	
Coal and Coke	1,100	
Bills payable		750
Bills receivable	375	
Cash in hand	25	
	£60,750	£60,750

The Stock at the end of the year amounted to £6,000. Prepare Trading, Profit and Loss, and Partners' Accounts, and Balance Sheet. Each partner is to have 5 per cent. interest on his Capital; the profits and losses are to be divided, two-thirds to A. Jumble and one-third to T. Sale; $7\frac{1}{2}$ per cent. depreciation is to be written off Machinery and Plant; $2\frac{1}{2}$ per cent. for discounts is to be allowed off Debtors and Creditors; £350 is to be reserved for Bad Debts; and Rates, amounting to £300, paid for the year ending March 31,

1908, have to be apportioned. (*Institute of Chartered Accountants; Final, May, 1908.*)—*Answer.* Net Profit £1,750; Balance Sheet Totals £28,450.

Exercise 15L.—Richard Black and William White enter into partnership, upon equal terms, for the purpose of purchasing and continuing the old-established business of the late Robert Blank. The business was taken over from Blank's executors as on Jan. 1, 1905, as a going concern, upon the basis of the last certified Balance Sheet, which was as follows:—

R. BLANK.

BALANCE SHEET, *December 31, 1904.*

To Capital	£26,593	By Freehold Premises	£14,200
„ Sundry Creditors . .	3,482	„ Plant Account . .	8,100
„ Reserve for Bad		„ Sundry Debtors . .	3,420
Debts	385	„ Stock on hand . .	4,140
		„ Office Furniture . .	600
	<u>£30,460</u>		<u>£30,460</u>

The purchase price was agreed at £28,000, which amount was found, in equal shares, by Black and White and duly paid over to Blank's executors. In addition, each partner paid £1,000 into the new firm's Banking Account to provide Working Capital, and it was agreed, before opening the new books, to reduce the valuation of the Plant (as shown above) by £500, the Stock by £450, and the Office Furniture by £200. Make the opening entries necessary to record the above transactions in the books of the new firm, and draw up a Balance Sheet showing the position of Messrs. Black & White at the commencement of the new partnership. (*Institute of Chartered Accountants; Intermediate, May, 1905.*)—*Answer.* Balance Sheet Totals £33,482.

Exercise 15M.—X, Y, and Z are in partnership, and on Jan. 1, 1909, their respective capitals were £4,000, £2,780, and £1,590. Y is entitled to a salary of £250 and Z to one of £200 per annum, payable before division of profits. Interest is allowed on capital at 5 per cent. per annum and is not charged on drawings. Of the net divisible profits X is entitled to 40 per cent. of the first £1,000, Y to 35 per cent. and Z to 25 per cent.; over that amount profits are shared equally. The profit for the year ended Dec. 31, 1909, after debiting partners' salaries, but before charging interest on capital, was £2,317, and the partners had drawn £800 each on account of salaries, interest and profits. Prepare the closing entries of the Profit and Loss Account and the Partners' Accounts for the year. (*Institute of Chartered Accountants; Intermediate, May, 1910.*)—*Answer.* Capital Accounts: (X) £4,000; (Y) £2,780; (Z) £1,590. Current Accounts: (X) £99 10s.; (Y) £238 10s.; (Z) £29.

Exercise 15N.—E, F, and G are in partnership, and at Dec. 31, 1898, the credit balances of their Capital Accounts are £5,000, £1,800 and £1,000 respectively. After allowing 4 per cent. interest on their capital, profits are divisible as follows: E $\frac{2}{3}$, F $\frac{1}{3}$, G $\frac{1}{3}$. Their withdrawals for the year 1899 have been, E £500, F £230, G £280. (*Charge no interest on drawings.*) The Profit and Loss Account for the year ending Dec. 31, 1899 (before charging interest on capital) shows a loss of £720. Show by accounts the adjustment

of these figures and the ultimate position of each partner.—*Answer.* Capital Accounts: (E) £5,000; (F) £1,800; (G) £1,000. Current Accounts: Debit Balances (E) £945; (F) £416; (G) £369.

Exercise 15o.—Messrs Black and White were equal partners in a retail boot shop. They decided to retire and dispose of their business as on Dec. 31, 1903. At the close of the year their Balance Sheet was as follows:—

BALANCE SHEET.		Dec. 31, 1903.	
To B. Black, Capital A/c	£3,050	By Lease . . .	£1,250
„ W. White „	960	„ Fixtures . . .	220
„ Sundry Creditors .	480	„ Sundry Debtors .	840
		„ Stock . . .	2,060
		„ Cash at Bank .	120
	<u>£4,490</u>		<u>£4,490</u>

The lease and fixtures were disposed of for £2,700, and the cash duly received. The book debts were collected, and realized £752. The stock was sold by auction, and produced £1,340 after payment of commission and expenses. The sundry creditors were paid off, £38 being allowed for discount. The expenses of realization amounted to £87. As book-keeper to the firm, prepare whatever accounts may be necessary to show the result of the realization and the amount received by each partner. (*London Chamber of Commerce; Senior, 1904.*)—*Answer.* Final Distribution: Black £3,236 10s. White £1,146 10s.

Exercise 15p.—A and B agree to dissolve partnership, the assets realize £12,800, and balance to this amount stands to credit of the firm at their bankers. A's capital is £2,800; B's capital is £2,100; B has also lent the firm £2,000. The amount of £3,900 is owing to trade creditors. A is entitled to $\frac{2}{3}$ of the net profits and B to $\frac{1}{3}$. Show the usual method of dividing the assets and the position of A and B at the close. (*Society of Accountants and Auditors; Intermediate, June 1901.*)—*Answer.* Creditors and B's Loan are repaid; after which A receives £4,300, and B £2,600.

CHAPTER XVI

Exercise 16e.—The prospectus of Messrs. Black & Tan, Ltd., was publicly advertised on January 21, 1902, with the following loan and share issues:—*Debentures:* 1,000 4 per cent. Debentures of £100 each, the whole of which were offered and fully subscribed and paid up; *Preference Shares:* 20,000 6 per cent. Preference Shares of £5 each, the whole of which were offered and fully subscribed and paid up; *Ordinary Shares:* Nominal, 30,000 shares of £5 each, of which 10,000 shares were issued as fully paid to the vendors in part payment of the purchase price of the business. Of the remaining 20,000 shares, the public subscribed for 15,000 shares, the whole of which were, in due course, fully paid up, with the exception of the last call of £2 per share on 500 shares, which were subsequently forfeited by resolution of the Directors. Pass the necessary entries through the Company's books to record these transactions, and state how they should appear in the Balance

Sheet. (*London Chamber of Commerce; Senior, 1902.*)—*Answer.* Debentures £100,000; Preference Shares £100,000; Ordinary Shares £122,500; Forfeited Shares £1,500.

Exercise 16F.—The business of Bruce Bros. & Co., was registered as a Limited Company in 1897 with a nominal Capital of £400,000, divided into 4,000 shares of £100 each. 500 of these shares were issued as fully paid in part payment of the purchase price of the business. 3,200 of the remaining shares were allotted to the public, and fully called up. 25 $4\frac{1}{2}$ per cent. Debentures of £1,000 each were also issued and taken up. On Dec. 31, 1899, the following accounts remained open in the Company's books:—Share Capital Account £320,000; Fully Paid Shares Account £50,000; Land and Buildings £282,000; Sundry Creditors £18,485; Investments £8,450; Cash £6,200; Preliminary Expenses Account (balance) £1,250; Goodwill Account £15,000; Calls in arrear £525; Debenture Account £25,000; Stock Account (31st Dec., 1899) £9,000; Plant Account £78,580; Sundry Debtors £28,000; Reserve Fund £8,000; Profit and Loss Account (undistributed balance) £7,520. Prepare a Balance Sheet as on Dec. 31, 1899. (*London Chamber of Commerce; Senior, 1900.*)—*Answer.* Balance Sheet Totals £428,480.

✓ **Exercise 16G.**—The nominal capital of Messrs. William Pearson & Co., Ltd., consists of 50,000 shares of £1 each. On Dec. 31, 1902, the Ledger Balances of the Company were as follows:—Share Capital Account (issued 30,000 shares of £1 each with 10s. per share called up) £15,000; Unpaid Calls Account £150; Cash in hand £190; Sundry creditors £1,960; Sundry debtors £3,640; Cash at bank £1,150; Reserve Fund £4,000; Machinery and Plant Account £6,000; Mortgage Debentures Account (45 debentures of £100 each at 5 per cent. interest) £4,500; Freehold premises £11,500; Stock (Jan. 1, 1902) £8,800; Manufacturing wages £12,450; Salaries £1,230; Discount Account (amount allowed by creditors) £48; Carriage and cartage £395; Rates and taxes £111; Insurance £98; Sales £62,850; Trade expenses £382; Repairs £174; Purchases £41,800; Unpaid Dividends Account £252; Bad Debts Account £191; Office expenses £124; Interest paid on Debentures £225. Stock was taken as on Dec. 31, 1902, and was valued at £6,820. Before closing the accounts the following adjustments are necessary: Make a provision of 5 per cent. for bad and doubtful debts. Depreciation at the rate of 10 per cent. is to be written off the Machinery and Plant Account. Prepare Trading and Profit and Loss Accounts for the year ending Dec. 31, 1902. Take £1,000 to the Reserve Fund, and prepare a Balance Sheet as on that date. (*London Chamber of Commerce; Senior, 1903.*)—*Answer.* Net Profit £2,956; Balance Sheet Totals £28,518.

Exercise 16H.—The Weyside Co., Ltd., was formed for the purpose of purchasing the old-established business of Richard Blank, and was duly registered with a nominal capital of £200,000, in 200,000 shares of £1 each. This capital was divided into 100,000 Ordinary Shares of £1 each, and 100,000 6 per cent. Preference shares of £1 each. The whole of the Preference Shares and 52,000 of the Ordinary Shares were offered for public subscription, payable, in both classes of shares, as follows:—2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share Jan. 15, 1905 (1st call), 5s. per share Feb. 15, 1905 (2nd call), the balance as and when required. The whole of the shares offered

to the public were applied for and allotted in due course. The balance of the Ordinary Share Capital was issued as fully paid to the vendor as part purchase price of his business. 500 ordinary shares applied for by John Smith, upon which the application money only had been paid, were subsequently forfeited in accordance with the Articles of Association. Pass the entries necessary to record the above transactions through the books of The Weyside Co., Ltd., and show how they would appear in the Company's Balance Sheet. (*London Chamber of Commerce; Senior, 1905.*)—*Answer.* Preference Shares £75,000; Ordinary Shares £86,625; Forfeited Shares £62 10s.

✓ **Exercise 16i.**—Give suitable rulings for the Share Ledger of a Limited Company and enter therein the following particulars:—John Smith, cork merchant, 440 Austin Friars, E.C., applied, on Jan. 2, 1902, for 150 Ordinary Shares of £1 each, and forwarded the necessary 2s. 6d. per share with his application. On Jan. 12, 1902, John Smith forwarded a further 2s. 6d. per share on being informed by the Company that 150 Ordinary Shares (numbered 1 to 150) had been allotted to him. On March 10, 1902, a call of 5s. per share was notified by the Company, and was duly paid by John Smith on his holding on March 15, 1902. On April 3, 1902, John Smith sold 100 of his shares (numbered 1 to 100) to William Brown, latter, 486 Bond Street, W., at 12s. 6d. per share, the transfer being in due course accepted by the Company. (*London Chamber of Commerce; Senior, 1903.*)—*Answer.* Balance of Shares held 50; 10s. per share paid.

Exercise 16j.—On March 1, 1907, the X Y Z Company, Ltd., purchased from X his business as a going concern, as from the previous Dec. 31. A Balance Sheet prepared upon that day showed the values of the assets acquired as follows:—Debtors £50,000; Stock-in-trade £25,000; Buildings £25,000; Plant, machinery, and furniture £18,000. The Company also agreed to take over the liabilities of X, which were guaranteed not to exceed £15,000. The purchase consideration was £120,000, payable £20,000 in cash, £50,000 in 6 per cent. Preference Shares of £1 each, and £50,000 in Ordinary Shares of £1 each. The shares were allotted, and the £20,000 paid to X on March 15, 1907, on which date 50,000 Ordinary Shares of £1 each were allotted to the public, a deposit of 5s. per share having been received thereon, while a further 5s. per share became due on allotment. Show the Journal entries necessary to record these transactions, and the Balance Sheet of the Company as on March 15, 1907. (*Chartered Institute of Secretaries; Final, June 1907.*)—*Answer.* Balance Sheet Totals £140,000.

Exercise 16k.—The M Company, Ltd., had a nominal capital of £25,000 in shares of £1 each, all issued and fully called up; but 500 of these shares had on Oct. 1, 1905, been forfeited for non-payment of a final call of 5s. per share. On May 1, 1907, A agreed to take these 500 shares from the Company and to pay £200, in consideration of which they are to be issued to him as fully paid. The shares were allotted and the money duly paid. You are required to show the Journal entries necessary to record the forfeiture and re-issue of these shares, and the Ledger Accounts affected thereby. (*Chartered Institute of Secretaries; Final, June,*

1907.)—*Answer.* Debit Forfeited Shares £375; Debit A £200; Credit Share Capital £500; Credit Premiums on Shares £75; Debit Cash £200; Credit A £200.

Exercise 16L.—Prepare a Balance Sheet of the Devonshire Iron Co., Ltd., at Dec. 31, 1904, from the following particulars:—Authorized Capital £200,000, divided into 100,000 Ordinary Shares of £1 each and 100,000 6 per cent. Cumulative Preference Shares of £1 each. 50,000 Preference Shares have been issued and are fully called up. 50,000 Ordinary Shares have been issued and 15s. per share called up. The Authorized Debenture issue is £100,000. Preference Share Capital paid up £49,500; Calls on Preference Shares in arrear £500; Ordinary Share Capital paid up £37,400; Calls on Ordinary Shares in arrear £100; Debentures issued—100 Bonds of £100 each, bearing interest at 4½ per cent. per annum £10,000; Ordinary Shares—Calls paid up in advance £300; cash at bank £1,650; Cash in hand £90; Trade creditors £3,880; Trade debtors £19,600; Stock in Hand Dec. 31, 1904, £12,350; Fixed plant and machinery £33,200; Freehold land and buildings £27,500; Loose plant and tools £9,600; Reserve Fund £6,000; Patterns and drawings £5,000; Investments on account of Reserve Fund £5,500; Reserve for bad and doubtful debts £980; Depreciation Fund for plant and machinery £1,600; Dividend on Preference Shares for the year £2,970; Interim Dividend on Ordinary Shares £1,870; Profit and Loss Account, balance after paying Interim Dividend on Ordinary Shares and Dividend on Preference Shares £4,850. (*Inst. of Chart. Accts; Inter., May 1905.*)—*Answer.* Balance Sheet Totals £113,510. *Note.*—It is assumed that debenture interest (£450) has already been debited to Profit and Loss Account.

Exercise 16M.—The International and British Trust, Ltd., with a paid-up capital of £10,000 in £1 Ordinary Shares and £10,000 in Preference Shares (preferential both as regards capital and income) decided to go into voluntary liquidation on June 1, 1910. First Mortgage 4% Debentures amounting to £15,000, and ordinary creditors' claims amounting to £12,066 2s. 8d. were then outstanding. The Assets, as set out below, realized the sums placed against them:—Cash at bank at date of liquidation £1,122 8s. 9d.; Investments sold: £8,000 2½% Consols £6,480, £1,000 Brazilian Government 5% Bonds £1,030, £5,000 Argentine Government 4% Bonds £4,550, £3,000 Costa Rica Government Stock £1,242 6s. 6d., £10,000 Great Central Railway Deferred Ordinary Stock £1,150 10s., £10,000 Greek Government 4% Rentes £3,900; Freehold building sites at various places sold for £9,865 10s. 6d.; Loans to Subsidiary Companies recalled, realized £6,650; Bank deposits withdrawn £3,600; Bank deposits, interest received to date of withdrawal £77 8s. 9d. The expenses of liquidation amounted to £882 9s. 8d.; the Debentures were repaid, together with £719 12s. 2d. interest accrued due thereon to the date of repayment; the Preference Shares were paid off, and the balance of the cash in hand was paid to the ordinary shareholders as a first and final dividend on Dec. 29, 1910. Prepare a statement for submission to the shareholders showing the process of liquidation, and state what dividend was paid to the ordinary shareholders.—*Answer.* Return to Ordinary Shareholders, 2s. per £1 share.

Exercise 16N.—On July 1, 1910, the British Aerodrome Co., Ltd., issued a prospectus offering to the public 50,000 Ordinary Shares of the Company of £1 each, 2s. 6d. per share payable on application and 7s. 6d. on allotment; the balance to be called up as required.

The List was closed on July 4th, and on the 5th the Directors met to allot the shares, when it was found that applications had been received for 61,000 shares as follows:—

John Jones, London	10,000 shares
D. O. George, Flint	1,000 „
Sir William Flyon, Dublin . .	5,000 „
Henry Wing, Dover	5,000 „
Sundry persons	40,000 „

The shares were allotted as follows:—John Jones, 5,000; D. O. George, none; Sir W. Flyon, 1,000; H. Wing, 4,000; and sundry persons, 40,000.

The amounts payable on allotment were all received on or before July 15.

Rule a suitable form of Applications and Allotments Book and make the entries therein necessary to record the above transactions. (*Institute of Chartered Accountants; Intermediate, 1911.*)

Exercise 160.—Prepare Journal Entries to record the following transactions in the books of a limited company:—200 shares of £1 each, 15s. called up, and on which 5s. per share had been paid, were forfeited and subsequently sold to X for £130, credited with 15s. per share paid up. (*Institute of Chartered Accountants; Intermediate, November 1910.*)—*Answer.* Forfeiture: Debit Share Capital £150; Credit Call Account £100; Forfeited Shares £50. Resale: Debit X £130; Forfeited Shares Account £50; Credit Share Capital Account £150; Premium on Shares Account £30. Debit Cash £130; Credit X £130.

Exercise 161.—Prepare a Balance Sheet at June 30, 1910, and Profit and Loss Account for the year ended that date, of the Shop Company, Ltd., from the following particulars, viz.:—The Authorized Share Capital is 80,000 5 per cent. Preference Shares of £1 each, and 40,000 Ordinary Shares of £1 each, of which 60,000 Preference and the whole of the Ordinary Shares have been issued and fully paid up. Bills receivable £270; bills payable £150; Premises Depreciation Account £4,000; cash at Bank and in office £210; house and office furniture £400; transfer fees £20; directors' fees, £600; doubtful debts reserve £300; Bank charges and interest £250; stock at June 30, 1910, £28,500; Bank loan £3,000; law costs £200; trade debtors, £13,000; office expenses, rent, salaries, audit fee, etc. £2,970; change cash at shops £250; reserve £1,200; rents, insurance, etc., paid in advance £650; trade creditors £12,500; Profit and Loss Account, credit balance at July 1, 1909, £850; freehold and leasehold premises £85,000; sundry creditors £280; horses, carts, vans, etc. £2,000; Trading Account (Profit) £12,000; bills receivable under discount £270. Provide 10 per cent. depreciation on house and office furniture and on horses, carts, vans, etc. Make a further reserve of £300 for Doubtful Debts and increase Premises Depreciation Account and Reserve Account by £1,000 each. What will be the balance of profit to carry forward after providing for the payment of the Preference Dividend and a Dividend of 5½ per cent. on the Ordinary Shares? (*Institute of Chartered Accountants; Intermediate, November 1910.*)—*Answer.* Profit Balance forward £1,110; Balance Sheet Totals, £129,440.

Exercise 162.—From the following items, appearing in the Trial Balance of the books of a Company at the close of its financial year,

prepare a Profit and Loss Account, giving effect to the further remuneration of the Directors as mentioned below—

	DR.			CR.		
	£	s.	d.	£	s.	d.
Directors' Fees	2,000	0	0			
Rent	500	0	0			
Salaries	350	0	0			
Law charges	50	0	0			
Ore sales				40,500	0	0
Advertising	25	0	0			
Interest				420	10	0
Transfer Fees				19	10	0
Income Tax	700	0	0			
Depreciation	300	0	0			
Audit Fee	40	0	0			
Sundry Expenses	155	0	0			

The Directors are entitled, under the Articles of Association, to appropriate and apply, by way of further remuneration, in any year in which a dividend is payable (assume the payment of a dividend) a sum equal to 5 per cent. upon the amount of the profits for each year. (*Institute of Chartered Accountants; Intermediate, November 1910.*)—*Answer.* Balance down, after paying £1,841 further remuneration to directors, £34,979.

Exercise 16R.—On December 31, 1909, the Trial Balance of the Motor Engineering Company, Ltd., was as under:—

	£	s.	d.	£	s.	d.
5,000 Ordinary Shares of £1 each				5,000	0	0
100 5 per cent. Debentures of £10 each				1,000	0	0
Goodwill	2,000	0	0			
Freehold property	1,500	0	0			
Machinery and tools	100	0	0			
Fixtures and fittings	20	0	0			
Hire cars	500	0	0			
Sundry debtors	2,500	0	0			
Stock of accessories, tyres, petrol, oil, etc., Dec. 31, 1909	250	0	0			
Cash at Bank	1,055	0	0			
Sundry creditors				153	0	0
Reserve for Bad Debts, Dec. 31, 1908				80	0	0
Accessories, including tyres and tubes (used)	2,000	0	0			
Petrol, oil, etc. (used)	550	0	0			
Cost of repairing cars (wages and materials)	750	0	0			
Charges to customers for repairing cars				800	0	0
Expenses of hire cars	200	0	0			
Wages (yardmen, etc.)	120	0	0			
Charges to customers for hire cars				330	0	0
Sales of accessories, including tyres and tubes				2,650	0	0
Carried forward	11,545	0	0	10,013	0	0

	£	s.	d.	£	s.	d.
Brought forward	11,545	0	0	10,013	0	0
Cars purchased for resale	11,000	0	0			
Sales of petrol, oil, etc.				750	0	0
Sundry receipts (washing cars, charging batteries, etc.)				85	0	0
Car sales				12,000	0	0
Management expenses	450	0	0			
Garage rents				45	0	0
Repairs, plant, etc.	18	0	0			
Bad debts written off	50	0	0			
Carriage on cars sold	80	0	0			
Debenture Interest to Dec. 31, 1909	50	0	0			
Ordinary Share Dividend to Dec. 31, 1908	500	0	0			
Profit and Loss Account (Balance Dec. 31, 1908)				800	0	0
	<u>£23,693</u>	<u>0</u>	<u>0</u>	<u>£23,693</u>	<u>0</u>	<u>0</u>

Depreciation is to be written off machinery and tools at the rate of 20 per cent., fixtures and fittings 10 per cent., hire cars 25 per cent. The Reserve for Bad Debts is to be increased to 5 per cent. on the sundry debtors, and 25 per cent. of the Net Profit for the year is to be reserved for commission to the Manager.

Prepare complete accounts in the form which, in your opinion, is calculated to give the greatest amount of information to the Directors as to the working results of the business at a glance. (*Institute of Chartered Accountants; Final, December 1910.*)—*Answer.* Net profit for year 1909 £1,200; Balance Sheet Totals £7,653.

Exercise 16s.—Report fully in what respect the following Balance Sheet is not in accordance with the Companies' Consolidation Act, 1908, or established practice. Illustrate by re-drafting same in proper form.

Dr. Balance Sheet of F.A.Q. Co. Ltd., as on April 1, 1908. Cr.

To Stock-in-Trade.....	£8,412	By Loan on Mortgage of Co's Property.....	£20,000
„ Book Debts.....	16,201	„ Trade Liabilities.....	16,412
„ Buildings.....	41,120	„ Capital: £120,000	
„ Plant and Machinery ..	79,480	in Shares of	
„ Profit & Loss A/c...£8,973		£1 each, all	
„ Less Shares cancelled.....	4,000	issued, 10s. paid	
	4,978	up.....	£60,000
„ Cost of Issue of Debentures	641	„ Less 8,000 Shares	
„ Bills receivable not yet due	4,500	cancelled, 10s.	
		paid.....	4,000
			56,000
		„ Reserve Fund.....	14,500
		„ Debentures issued.....	40,000
		„ Bills payable.....	8,420
	<u>£155,332</u>		<u>£155,332</u>

I have examined the above Balance Sheet and find same correct.

X.Y.Z., Auditor.

(*Society of Incorporated Accountants and Auditors; Intermediate, June 1909.*) *Answer.*—Sides reversed, mortgage should be deducted from property charged, bases of valuation of assets not stated, authority

for cancellation of shares (? surrender) not given, and practice of doubtful legality, auditor's certificate not according to statutory form. No cash balance or bank overdraft shown.

Exercise 167.—From the following Trial Balance of the A. B. Engineering Company prepare a Profit and Loss Account and Balance Sheet as at December 31, 1907. The Nominal Capital of the Company is £20,000, divided into 4,000 shares of £5 each, of which 2,000 shares have been allotted.

	£	£
Share Capital Account		10,000
Stock-in-Trade, January 1, 1907	11,255	
Purchases	12,744	
Wages	13,964	
Call Account	100	
*Machinery and Plant Account	4,500	
Fixtures and Utensils	250	
Salaries	3,754	
Sales		38,568
Loose Tools	400	
Rent, Rates, Taxes and Insurance	720	
Repairs and Renewals	856	
Sundry Creditors		2,430
Bank Overdraft		5,000
Stationery, Advertising and Travelling	210	
†Fuel	229	
Stores (Revenue Account)	180	
Gas and Water	110	
Drawing Materials (Revenue Account)	60	
Postages and Telegrams	380	
Discounts and Allowances	1,030	
Bank Charges	191	
Depreciation of Machinery charged on account	500	
Sundry Debtors	3,800	
Cash in hand	25	
Revenue Account, January 1, 1907	500	
Bad Debts	40	
Patterns { Balance, January 1, 1907, £80 }		200
{ Additions for year 120 }		
	<u>£55,998</u>	<u>£55,998</u>

The value of the Stock-in-trade at Dec. 31, 1907, was £10,800. Before ascertaining the net profit, allow depreciation as follows—

On Patterns bought during the year	50 per cent.
On other Patterns	10 per cent.
On Machinery and Plant (on £5,000)	15 per cent.
On Fixtures	5 per cent.
On Loose Tools	5 per cent.

Provide Reserve for Discounts on Sales at the rate of 2 per cent. on the outstanding balances. (*Society of Incorporated Accountants and Auditors; Intermediate, June 1908.*—Answer. Net Profit = £2,718 10s.; Balance Sheet Totals = £19,548 10s.)

* Balance after charging off £500 on account.

CHAPTER XVII

Exercise 17E.—From the following particulars show Charles Brown's assessment for income tax for the year 1911-12, and state the rate at which the tax will be due. Charles Brown is employed in an insurance office, and his salary has been as follows: 1908, £200; 1909, £210; 1910, £220. He pays an annual life insurance premium of £12 to a British office. He is not married.—*Answer.* On £38 at 9d. in £.

Exercise 17F.—From the following particulars prepare O P Q's income tax return for the year 1911-12, stating the rate at which tax will be payable. He is a solicitor; his professional earnings have been as follows: 1908, £250; 1909, £350; 1910, £380. He is married, and his wife owns £400 2½ per cent. Consols. They have one son under 16 years of age.—*Answer.* On £156 13s. 4d. at 9d. in £. Interest on Consols already taxed by deduction.

Exercise 17G.—From the following particulars prepare X Y Z's income tax return for 1911-12 and super-tax return for 1912-13. X Y Z is a barrister, unmarried; his income from professional fees has been as follows: 1908 £500, 1909 £700, 1910 £1,500. He owns besides £100,000 India 3½ per cent. Stock and £20,000 Japanese Government 4½ per cent. Bonds. He pays £25 a year life insurance premium to a British office.—*Answer.* *Income Tax* due on £875 at 1s. 2d. in £., investment interest being already taxed by deduction: *Super-tax* due on £2,275 at 6d.

Exercise 17H.—John Thompson has a business the profits of which for the three years 1906, 1907, and 1908 his books showed to be £530, £550, and £600 respectively, in arriving at which there had been charged each year:—His salary £100; interest on capital £50; interest on loan £15; depreciation of fittings, etc. £25; bank interest £5. He owns his house, assessed at £35, subject to a mortgage of £300 at 4½ per cent. interest. His wife has an income derived from £700 4 per cent. Debenture Stock of the Assured Railway Company. Make up his income tax return for 1909-10, assuming that there is no change in the present tax, and show the amount he will have to pay. (*Institute of Chartered Accountants; Intermediate, May 1909.*)—*Answer.* Earned income £735; unearned income £15.

Exercise 17I.—The accounts of the firm of A, B, and C show the following annual profits, viz. 1908 £1,500, 1909 £1,800, 1910 £2,020, after charging depreciation of lease (£300 in each year), income tax paid (£60 in 1908, £70 in 1909, and £85 in 1910), and charitable donations (£21 each year). The three partners A, B, and C share profits in the following proportions: A $\frac{1}{3}$, B $\frac{1}{3}$, and C $\frac{1}{3}$. C pays £30 life insurance premium to a British office. State what assessment will be made on the firm for the year 1911-12, and show the partners as being separately treated. The partners have no income apart from their share of the business profits. A and B are unmarried, C is married and has two children under 16 years of age; his wife has no private income.—*Answer.* Net Assessments (A) £1,083; (B) £722; (C) £151, all at 9d. in £.

Exercise 17J.—The following are the figures of the net Profit and Loss Account of a Trading Company for the year 1907:—

By Gross Profit on Trading	<u>£10,000</u>
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To EXPENSES—

Rent of leasehold premises (assessed at the same amount)	£1,000
Rent of freehold premises (assessed at £1,000, not dealt with in the Profit and Loss Account)	
Rates and Taxes, including Schedule A.	400
Salaries	2,325
Office expenses	500
Office Furniture depreciation	25
Interest on account overdrawn at Bankers from time to time	175
Income tax paid during the year at 1s. in the £	250
Fire insurance, etc.	150
Interest on Debentures	675
	<hr/>
£5,500	
„ Balance, net Profit	4,500
	<hr/>
	£10,000

What is the correct figure of net Profit for Income Tax purposes, Schedule D, in respect to the year 1907? (*Institute of Chartered Accountants; Intermediate, November, 1908.*)—*Answer.* £4,500.

Exercise 17K.—Henry Jones carries on business as a tailor. His profits for the three years 1907, 1908 and 1909 were £300, £450, and £420 respectively. He lived away from his business, in his own house, which was assessed under Schedule (A) at £36 net. He had £1,000 Midland Railway 4 per cent. Debenture Stock. He was insured for £1,000, the annual premium being £25. He had three children, aged respectively 9, 12 and 17 years. Make out Henry Jones' return for Income Tax for the year 1910-11, claiming such allowances and abatements as he may be entitled to. (*Institute of Chartered Accountants; Intermediate, May, 1911.*)—*Answer.* Tax payable on £195. Earned Income at lower rate.

Exercise 17L.—John Jones' profits for the five years ended April 30, 1909, properly assessable for payment of Income Tax (after allowance of £120 in each year for Schedule (A) assessment of his business premises) were as under:—

	£
Year ended April 30, 1905 . . .	5,700
Year ended April 30, 1906 . . .	5,500
Year ended April 30, 1907 . . .	4,700
Year ended April 30, 1908 . . .	4,100
Year ended April 30, 1909 . . .	3,500

As a director of a Limited Company John Jones has received £150 in each of the five years. He owns house property, the gross rentals of which amount to £450, which are assessed under Schedule (A) at £300 net. His wife has a private income (taxed at its source) of £500 per annum. He pays Life Insurance premiums upon his own life, amounting to £250 per annum. State the amount of John Jones' total liability for Income Tax under the various Schedules for the year ended April 5, 1910, and the figures you employ to arrive at your results. (*Institute of Chartered Accountants; Final, December 1910.*)—*Answer.* Income Tax. In-

come already taxed £920; tax to be paid at 1s. 2d. in £ on further £4,667 = £272 4s. 10d. Super-tax. Tax to be paid on £3,120 at 6d. = £78.

Exercise 17M.—C and D carry on business in partnership. The following are the particulars of the firm's profits for the three years ending 1908:—

	1906.	1907.	1908.
	£	£	£
Share of Net Profits—C Two-thirds	1,200	1,300	1,100
Share of Net Profits—D One-third	600	650	550
Salary—C	200	200	200
Salary—D	400	400	400
Interest on Capital—C	350	400	450
Interest on Capital—D	150	200	250
Depreciation allowed	900	900	900
Income Tax, Schedule (D)	130	140	140

From above figures prepare a return showing the liability of each partner for the year 1909-10 for Income Tax Assessment as required by the Surveyor of Taxes. (*Society of Incorporated Accountants and Auditors; Intermediate, June 1909.*)—*Answer.* C pays tax on £1,875, D on £1,262. It is assumed that £900 had been charged in the Profit and Loss Account for depreciation.

Exercise 17N.—E. G. is the proprietor of a manufacturing business, the profits of which for the years 1904, 1905, and 1906 are £1,600, £1,350 and £1,550 respectively. He receives £250 per annum for acting as Chairman of a Limited Company, from which he also receives an annual dividend on his shares in the Company of £200. He is insured in the New York Life Insurance Company, and pays an annual premium of £80. He owns the house in which he resides, the gross annual value under Schedule (A) being £84. You are requested to prepare his Income Tax Return for the year 1907-08. (*Society of Incorporated Accountants and Auditors; Final, June, 1908.*)—*Answer.* E. G. will pay tax under Schedule (D) on £1,500 (average profits) less £80 = £1,420 and under Schedule (A) on £84. His chairman's fees and dividends come to him presumably tax-paid. Deduction of foreign companies' life insurance premiums was formerly inadmissible, but is now allowed.

CHAPTER XVIII ✓

Exercise 18E.—From the following particulars write up J. Wilkin-son's Town Sales Ledger in self-balancing form; show also the Sales Ledger Account in his General Ledger, his Cash Book, Day Book, and Returns Inwards Book; the three latter books are to contain additional analysis columns relating to a Country Sales Ledger, but the entries to be made in them are to be only those (given below) relating to the Town Sales Ledger.—*Town Sales Ledger balances Oct. 1, 1910.* Debtors: A. Alton, 771 Tottenham Court Road, W., £118 2s.; B. Barber, 145 Eastcheap, E.C. £64 9s. 8d.; C. Cape, 177 Lothbury, E.C., £177 2s. 9d.; D. Davies, 199 West Smithfield, E.C., £1,022 11s. 4d. *Transactions for the month of October 1910:* Oct. 3, received cash from B. Barber £50; Oct. 4, received cash from C. Cape £175, allowing C. Cape discount

£2 2s. 9d. ; Oct. 5, sold goods to A. Alton £142 8s. 9d. ; Oct. 6, sold goods to C. Cape £221 4s. 4d. ; Oct. 8, received goods returned by C. Cape, allowing him full invoice price therefor £8 2s. 9d. ; Oct. 10, sold goods to D. Davies £211 4s. 8d. ; Oct. 14, D. Davies paid me cash £1,015, allowed him discount £7 11s. 4d. ; Oct. 15, sold goods to B. Barber £118 8s. 10d. ; Oct. 17, received from B. Barber his acceptance at 3 m/d £132, allowed him discount 18s. 6d. ; Oct. 20, received cash from A. Alton £100 ; Oct. 21, sold goods to E. East, 325 Cornhill, E.C., £36 ; Oct. 22, received cash from E. East £35, allowing him discount thereon £1 ; sold goods to A. Alton £222 4s. 9d. ; Oct. 24, sold goods to B. Barber £214 8s. 10d. ; sold goods to C. Cape £32 4s. 6d. ; Oct. 25, B. Barber returned goods as not up to sample, allowed him full invoice price therefor £17 7s. 2d. ; Oct. 27, received from C. Cape cash £25 ; received from C. Cape his acceptance at 2 m/s £200 ; Oct. 28, A. Alton this day made a composition with his creditors, paying them 10s. in the £ : received cheque for £191 7s. 9d., write off the remainder of A. Alton's debt £191 7s. 9d. ; sold goods to E. East £10 12s. 6d. ; Oct. 29, sold goods to F. Fry £76 4s. 9d.—*Answer*. Balance of Sales Ledger Adjustment Account £515 9s. 8d.

Exercise 18F.—The undermentioned particulars have been extracted from the books of Messrs. James Ogden & Co., who keep only one Sales Ledger. You are required to prepare the relative "Sales Ledger," and "General Ledger" Adjustment Accounts as on Dec. 31, 1909 :—1909. June 30, debtors' balances £28,394 12s. 6d. ; Dec. 31, transactions for the half-year to date : sales to debtors £58,421 10s. 8d. ; returns from debtors £691 12s. ; cash received from debtors £41,344 8s. 6d. ; discounts allowed to debtors £1,504 9s. 3d. ; acceptances received from debtors £4,210 1s. 2d. ; acceptances returned dishonoured £550 ; bad debts written off £942 10s. ; sundry charges debited to debtors £29 4s. 6d. (*Institute of Chartered Accountants ; Final, May, 1910.*)—*Answer*. Balance Dec. 31, 1909, £38,702 6s. 9d.

Exercise 18G.—From the following particulars, extracted from the books of J. Child & Co., who keep only one Bought Ledger, prepare the Bought Ledger Adjustment Account in their General Ledger and the General Ledger Adjustment Account in their Bought Ledger :—1910. July 1, total creditors' balances outstanding in Bought Ledger £13,122 6s. 8d. ; total of sundry small debit balances (for returns, etc.) on various persons' accounts in Bought Ledger £22 1s. 1d. ; Dec. 31, total purchases on credit for half year £60,028 9s. 4d. ; total cash paid creditors during half year £30,226 11s. 3d. ; discount and allowances received from creditors during half year £621 4s. 8d. ; acceptances given to creditors during half year £40,050 ; goods sold to creditors during half year and settled by contra account £34 9s. 8d. ; total of purchases from creditors returned to them as unsatisfactory during the half year £212 8s. 5d.—*Answer*. Balance of Adjustment Account £1,984 0s. 11d.

Exercise 18H.—Rule a form of Visitors Ledger on the columnar system for the Seaview Hotel, and enter in it the following transactions for Nov. 28, 1910 :—Visitor, A. Back, room No. 1 : room 4s. 6d., breakfast 2s. 6d., lunch 3s. 6d., cash paid 10s. 6d. ; Visitor, C. Rowe, room No. 2 : room 5s. 6d., dinner 5s., breakfast 2s. 6d., cigars 1s., wines 3s., spirits 1s., amount carried forward to next day 18s. ;

Visitor, A Pike, room No. 3: room 4s., breakfast 2s. 6d., cigar 6d., liqueurs 6d., cash paid 7s. 6d.—*Answer.* Balance forward, C. Rowe 18s.

✓ **Exercise 181.**—The East Clayshire Waterworks Co. supply water to the inhabitants of Claytown for an annual charge of 5 per cent. on the rental value of each house supplied, plus additional charges for extra supply for garden purposes, etc. The 5 per cent. charge is payable in two equal half-yearly instalments of $2\frac{1}{2}$ per cent. each on March 1 and Sept. 1 in each year respectively. From these and the following particulars prepare in tabular form the Water Company's Ledger for the consumers living in Southfields Avenue for the half year commencing March 1, 1910, including in every case the water charges becoming due on that date:—Southfields Avenue, No. 1, rental value £38, arrears brought forward 19s., cash received £1 18s., Aug. 15; No. 2, rental value £40, arrears brought forward £2, cash received £3, May 11; No. 3, rental value £42, arrears nil, cash received £1 1s., March 3; No. 4, rental value £40, arrears nil, cash received 15s., May 12, allowance made for period while empty 5s.; No. 5, rental value £45, arrears nil, charge for garden hose supply 5s., cash received £1 7s. 6d., July 18; No. 6, rental value £40, arrears nil, charge for excess supply 2s. 6d., cash received nil, allowances nil; No. 7, rental value £42, arrears nil, cash received £1 1s., March 3; No. 8, rental value £40, arrears nil, cash received £1, March 3; No. 9, rental value £50, arrears brought forward £1 5s., charge for excess supply 2s. 6d., cash received £2 10s. Aug. 22, allowance granted 2s. 6d.—*Answer.* Only balance forward Aug. 31, No. 6, £1 2s. 6d. ✕

✓ **Exercise 182.**—The X.Y. Company, Limited, keep their Ledgers on the "self-balancing" system. On December 31, 1910, the Sales Ledger Account in the Private Ledger showed a debit balance brought down December 31, 1909, of £4,031. During the year the total Sales were £35,422, and Returns inwards were £625. The Cash received during the year and posted to the Sales Ledger was £31,125. The Discounts allowed on Accounts in the Sales Ledger amounted to £1,314. Transfers from the Bought Ledger to the Cr. of Sales Ledger Accounts, £720. Transfers from the Sales Ledger to the Dr. of Bought Ledger Accounts, £1,052. Bills receivable posted to the Sales Ledger, £2,035. Write up the Sales Ledger Account and show the balance brought down at Dec. 31, 1910. (*Institute of Chartered Accountants; Intermediate, 1911.*)—*Answer.* Debit Balance of Sales Ledger Account, Dec. 31, 1910, £2,582. ✕

CHAPTER XIX

Exercise 19E.—From the following particulars prepare Manufacturing and Profit and Loss Accounts showing separately the gross and net profits made by the "Plate" and "Cutlery" Departments respectively:—Jan. 1, 1910, Stock: plate £1,400, cutlery £1,650; purchases: plate £8,624, cutlery £2,055; sales: plate £18,500, cutlery £9,250; returns outwards: plate £125, cutlery £108; wages: plate £5,429, cutlery £4,612; Dec. 31, 1910, stock: plate £135, cutlery £355, salaries £1,543; rent, rates, and taxes £655; general expenses £783. The three latter items are to be apportioned between the two departments according to the total of the sales effected by each.—*Answer.* Gross Profit: Plate

£3,307; Cutlery £1,396; Net Profit: Plate £1,319 13s. 4d.; Cutlery £402 6s. 8d.

Exercise 19f.—The Olympian Patent Medicine Co. manufacture two varieties of patent medicine, viz. "Hercules" ointment and "Jupiter" pills. From the following particulars prepare the Company's Trading and Profit and Loss Account for 1910, showing the gross and net profits or losses on each class of manufacture:—Stock of drugs on hand Jan. 1, 1910: ointment £600 10s., pills £80 2s. 2d.; stock of bottles, wrappers, and labels: Jan. 1, 1910: ointment £125 15s. 6d., pills £15 2s. 9d.; Dec. 31, 1910: purchase of drugs: ointment £884 2s. 9d., pills £246 8s. 2d.; bottles, wrappers, and labels: ointment £625 8s. 2d., pills £122 8s. 4d.; manufacturing expenses: ointment £1,146 2s. 6d., pills £422 8s. 6d. Sales: ointment 256,020 boxes at 6d. each, pills 42,114 boxes at 1s. each; stock of drugs, bottles, and wrappers on hand at December 31, 1910, ointment £81 18s. 11d., pills £81 4s. 11d.; advertising £2,484 9s.; postage, stationery, and printing £207 0s. 9d.; salaries £414 1s. 6d.; rent, rates and taxes, and general expenses £621 2s. 3d. Apportion the four last-mentioned expenses between the two classes of goods according to the number of boxes of ointment or pills sold.—*Answer.* Gross Profit: Ointment £3,100 10s.; Pills £1,300 9s.; Net Loss: Ointment £99 15s.; Net Profit: Pills £774 0s. 6d.

Exercise 19g.—A company having its head office in London owns a factory in South Africa. During the year 1908 £10,000 in cash has been remitted from London to the factory, and bills for £5,000 drawn by the manager in South Africa on the head office have been accepted. At the end of the year it is found that there has been a loss on the working of the factory of £2,000, which is transferred to the head office. Show the entries in the head office books recording these transactions. (*Institute of Chartered Accountants; Intermediate, Nov. 1909.*)—*Answer.* Debit balance on factory account, Dec. 31, 1908, £13,000.

Exercise 19h.—Messrs. J. Silkstone & Sons, coal merchants, of London, opened a branch business at Maidstone on January 1st, 1903. The Trial Balance of the books of the Maidstone branch as on December 31st, 1903, was as follows:—

TRIAL BALANCE.		Dec. 31, 1903.
Head Office Adjustment Account		£1,574 0 0
Coal Sales		1,750 0 0
Sundry Debtors	£640 0 0	
Horses, Carts, etc.	280 0 0	
Salaries, Rent, and Expenses	620 0 0	
Cash in Hand	78 0 0	
Coal from Head Office (as invoiced)	1,748 0 0	
Sundry Creditors		42 0 0
	<u>£3,366 0 0</u>	<u>£3,366 0 0</u>

The stock of coal at Maidstone on December 31st, 1903, was valued at £984. Prepare a Profit and Loss Account showing the result of the working of the Maidstone branch for the year ending December 31st, 1903, and draft the entries necessary to incorporate the above figures in the head office books. (*London Chamber of Commerce; Senior, 1904.*)—*Answer.* Branch Profit, £366; Final Balance of Head Office account Cr. £1,940.

Exercise 19i.—From the following Trial Balances prepare the Balance Sheet of Holmes, Ltd., for submission to its shareholders.

Holmes, Ltd. LONDON TRIAL BALANCE. June 30, 1910.

	£	£
Share Capital (5,000 £1 Shares)		5,000
Sundry Debtors	2,562	
Freehold Premises	1,223	
Cash at Bank	142	
Leeds Branch	3,349	
Sundry Creditors		1,714
Profit and Loss Account Balance		562
	<u>£7,276</u>	<u>£7,276</u>

Holmes, Ltd. LEEDS TRIAL BALANCE. June 30, 1910.

	£	£
Stock	1,982	
Furniture and Fittings	321	
Sundry Debtors	1,589	
Profit and Loss Account		685
Cash at Bank	566	
London Office		3,124
Bills Payable		649
	<u>£4,458</u>	<u>£4,458</u>

The London office remitted £125 to the Leeds branch on the afternoon of June 30: the Leeds branch did not receive the money until the morning of July 1st. The London office paid on June 30 £100 on account of the Leeds branch for goods purchased for cash on the latter's behalf: the Leeds branch did not receive the goods until the 3rd of July or the advice of their purchase until the 2nd of July.—*Answer.* Balance Sheet Totals £8,610.

Exercise 19j.—J. W. purchased in France from M. de Marsac 100 dozen of wine at 40 francs per dozen, and a bill at 60 days was drawn upon him for the amount and accepted. The entries of the transaction were made by J. W. through his Journal in English money at the rate of exchange of 25 francs per £. The bill was afterwards paid by J. W.'s bankers, the rate of exchange at which he was charged being 25·25 francs per £. Journalize the above transactions and show the account with M. de Marsac in J. W.'s ledger. (*Institute of Chartered Accountants; Intermediate, Nov. 1907.*)—*Answer.* Original entry for purchase £160; Exchange profit on settlement £1 11s. 8d.

Exercise 19k.—The following is the Trial Balance of the Calcutta branch of a London house on 31st December, 1905:—

	Dr.	Cr.
Stock on hand Dec. 31, 1904	Rs. 5,000	
Purchases	30,000	
Sales		Rs. 45,000
Sundry Debtors	10,000	
Sundry Creditors		7,000
Bills Receivable	3,000	
Bills Payable		2,000
Carried forward	<u>48,000</u>	<u>54,000</u>

	Dr.	Cr.
Brought forward . . .	48,000	54,000
Wages and Salaries . . .	2,000	
Rent, Rates, and Insurance . . .	1,500	
General Expenses . . .	600	
Fixtures and Furniture . . .	2,000	
Cash at Bank . . .	13,000	
Cash in Hand . . .	400	
London Office . . .		13,500
	<u>Rs. 67,500</u>	<u>Rs. 67,500</u>

Stock on hand December 31st, 1905, Rs.8,000.

Rate of Exchange December 31st, 1905, Rs.16.*

Average rate for 1905, Rs.15.*

Rate December 31st, 1904, Rs.14½.*

Calcutta Branch account in London books £896 10s. 6d.

Convert the above figures into sterling for inclusion in Head Office books, and state the principles which guide you in so doing. (*Institute of Chartered Accountants; Final, May 1906.*)—*Answer.* Trial Balance Totals in sterling £4,459 0s. 6d.; Closing stock £500.

Exercise 19L.—From the following Trial Balances prepare the Balance Sheet of the San Paulo Trading Syndicate, Ltd., as at June 30, 1910.

SANTOS TRIAL BALANCE.		June 30, 1910.
	Dr. Milreis.	Cr. Milreis
Cash at Bank of Brazil, Santos . . .	7,500	
Stock of Goods on hand . . .	75,500	
Sundry Debtors . . .	68,500	
Bills Payable . . .		17,000
Furniture and Fittings, Balance at Dec. 31, 1909 . . .	2,000	
Furniture and Fittings, additions from Jan. 1, 1910, to June 30, 1910 . . .	1,500	
Profit and Loss Account, balance, being net profit for the half-year ended June 30, 1910 . . .		14,000
London Office Account, £7,767 3s. 9d.		124,000
	<u>Ms. 155,000</u>	<u>Ms. 155,000</u>

LONDON TRIAL BALANCE.		June 30, 1910.
	£ s. d.	£ s. d.
Share Capital issued— 10,000 £1 shares, 15s. per share paid . . .		7,500 0 0
Cash at Bank . . .	85 0 11	
Santos Office Account, Ms. 124,000 at actual remittance rates . . .	7,767 3 9	
Profit and Loss Account, balance brought forward Dec. 31, 1909 . . .		352 4 8
	<u>£7,852 4 8</u>	<u>£7,852 4 8</u>

* Rupees per pound sterling.

Current Rate of Exchange Dec. 31, 1909, 15*d.* per milreis.

Do. do. June 30, 1910, 16½*d.* per milreis.

Average rate for first half of 1910, 16*d.* per milreis.

Furniture and Fixtures on hand at Dec. 31, 1909, were bought at 15*d.* per milreis; the additions during the first half of 1910 were bought at 16*d.* per milreis.—*Answer.* Profit on Exchange £771 7*s.* 1*d.*; Balance Sheet Totals £10,725 13*s.* 5*d.*

Exercise 19*M.*—The Southern Confectionery Company, Limited, London, has a branch at Bristol. Goods are invoiced to the Bristol branch at selling prices, being cost plus 25 per cent.

The Bristol branch keeps its own Sales Ledger and transmits all cash received to London daily. All expenses are paid from London.

From the following details prepare a Profit and Loss Account of the Bristol branch for the year 1910.

	£
Stock, Jan. 1, 1910 (at invoice prices)	1,250
Stock, Dec. 31, 1910 (at invoice prices)	1,500
Sundry Debtors, Jan. 1, 1910	700
Sundry Debtors, Dec. 31, 1910	900
Cash Sales for the year	5,400
Credit Sales for the year	3,500
Cash received for Ledger Accounts	3,300
Goods invoiced from London	9,100
Rent and Rates (paid from London)	400
Wages (paid from London)	340
Sundry Expenses (paid from London)	80

(*Institute of Chartered Accountants; Intermediate, 1911.*)—*Answer.* Profit, £1,000.

CHAPTER XX

Exercise 20*E.*—Mr. John Black and Mr. Edward Thompson agree to import Swedish timber into this country. On May 1, 1904, they open a Banking Account under the style of "Black & Thompson" for £2,400, towards which John Black contributes £1,400 and Edward Thompson £1,000, they dividing profits or losses *pro rata* to their cash contributions (say $\frac{7}{12}$ ths and $\frac{5}{12}$ ths respectively). They remit to their agent in Sweden £1,800 to pay for the timber purchased out there, and, later on, a further £100 in settlement of his account. The Freight, Insurance, and Dock Charges are all paid on this side, and, together, amount to £400. On Dec. 31, 1904, the various sales have realized £2,400 net, which enables them to repay themselves (taking no account of interest) the cash respectively advanced by them on May 1, 1904. The venture is then closed by John Black taking over the balance of timber unsold for £380, and for which he pays a cheque into the Banking Account. How much Cash Balance does this leave for final division by way of profit, and how is the same apportioned between John Black and Edward Thompson as their respective share of profit thus realized on the venture? (*Institute of Bankers; Final, April, 1905.*)—*Answer.* Balance of Cash: £480; Divisible: Black £280; Thompson £200.

Exercise 20*F.*—Brown and Jones engage in a joint speculation in timber, the former being in Russia and the latter in England. A banking account in their joint names is opened on Feb. 10, 1900. Brown pays in £500 and Jones £660. The following are the

transactions:—1900. Feb. 15, bought cargo in Riga from L. Sandherr valued £632, less discount at 5 per cent. £600 8s.; accepted Sandherr's draft at 3 m/d £600 8s.; Feb. 17, paid expenses loading at Riga £28 9s. 6d.; paid freight to Hull £98 17s. 9d.; March 23, sold Robinson logs £165 18s., received cash, less 2½ per cent. £157 12s. 2d.; March 24, bought from M. Reimann for cash cargo of timber net £933; April 29, paid shipping charges and freight £213; April 24, sold M. Johnson deals net £337, received his acceptance at 2 months £337; May 17, sold J. James cargo purchased from Reimann net £1,260; received his acceptance at one month £1,260; June 30, stock, balance of Sandherr's cargo, valued at £311. On June 30 the speculation was closed by Jones taking over the stock at the agreed value of £311, less 10 per cent. Adjust the accounts as between the partners at June 30, 1900, allowing interest on the amounts deposited at 5 per cent. (*Institute of Chartered Accountants; Intermediate, June, 1901.*)—*Answer.* Final Capitals: Brown £578 16s. 9d.; Jones £462 0s. 2d.

✓ **Exercise 20c.**—The Coal Mine Co., Ltd., took a lease of a colliery from G. Risch for 99 years from Sept. 29, 1896, at a ground rent of £50 a year, payable half-yearly, and a royalty of 6d. per ton, with a minimum royalty of £80 a year, payable half-yearly. During the first year the Company raised 2,500 tons, and during the second year ended Sept. 29, 1898, 4,000 tons. The several amounts due to G. Risch were paid 21 days after becoming due. Write up both Personal and Nominal Accounts, and balance them at the end of each year. (*Institute of Chartered Accountants; Final, Dec. 1898.*)—*Answer.* Royalties transferred to P. and L. Account, Sep. 30, 1897, £62; Sep. 30, 1898, £100; Ground Rents transferred to P. and L. Account, £50 each year.

✓ **Exercise 20d.**—A lead mine is leased by A to B for a period of years at a dead rent of £300 per annum, merging into a royalty of 10s. per ton on all ore gotten. In the first five years this tonnage is as follows:—1st year 958 tons; 2nd year 234 tons; 3rd year 615 tons; 4th year 430 tons; 5th year 28 tons. B pays on account in the first year £300, and in the second year £50 (*and has made no further payments to A during the five years*). Prepare the necessary personal and nominal accounts in B's Ledger, showing these transactions, and bringing down balances, if any. (*Society of Accountants and Auditors; Intermediate, December, 1900.*)—*Answer.* (Assuming no power of recouping royalties and that lessee bears loss if any year's workings are less than dead rent quota) B owes A £1,336 10s. at end of period.

✓ **Exercise 20i.**—A colliery is worked under a 30-years' lease at a royalty of 8d. a ton, with a minimum yearly rent of £1,000, with power to recoup short workings. In the first year 25,000 tons are worked, in the second 26,500, in the third 24,600, in the fourth 31,000, and in the fifth 30,500 tons. How would you deal with the respective year's royalties both in Profit and Loss and in the Balance Sheet? (*Institute of Chartered Accountants; Intermediate, December, 1899.*)—*Answer.* Royalties, 1st year, £833 6s. 8d.; 2nd year, £883 6s. 8d.; 3rd year, £820; 4th year, £1,033 6s. 8d.; 5th year, £1,016 13s. 4d.

Exercise 20j.—From the following particulars make out the Statement of Affairs of Thos. F. Sellers for submission to his creditors, assuming that the Stock, Doubtful Debts, and Fixtures

will realize 50 per cent. of the value mentioned. Good book debts £3,872; Doubtful £1,500; Bad £2,500; Unsecured creditors £7,278; Bills payable £1,200; Stock £1,200; Fixtures, etc. £300; Partially secured creditors £872; Estimated value of securities £550; Cash at Bank £150; Preferential creditors £267; Creditors fully secured (estimated value of securities £2,500) £2,200. (*National Union of Teachers; Advanced, 1907.*)—*Answer.* Deficiency £3,245.

Exercise 20K.—Prepare Statement of Affairs as on March 31, 1901, of A. Dunn, for the purposes of a meeting of creditors:—Cash in hand £5; Fixtures and utensils (cost £80) valued at £60; Book debts £100 (Good £65, Doubtful £20, Bad £15), estimated to produce £75; Household furniture (cost £300) £280; Stock on hand valued at £150, less 10 per cent; Life Policy for £500 held as security by bankers, surrender value about £150; Trade creditors £1,250; Banker's claim £420, holding Life Policy (see above) for £500; Rent owing (preferential) £30; Rates (preferential) £12. (*Society of Accountants and Auditors; Intermediate, June, 1902.*)—*Answer.* Deficiency £1,007.

Exercise 20L.—From the following Balance Sheet, drawn according to ordinary commercial methods, construct Balance Sheets according to the requirements of the Double Account system.

THE CORNHILL & LOTHBURY RAILWAY COMPANY

Balance Sheet, December 31, 1910.

LIABILITIES.		ASSETS.	
Ordinary Stock issued . . .	£3,000,000	Cost of Line . . .	£2,990,000
Four per cent. Debenture Stock issued . . .	1,000,000	Cost of Rolling Stock and Equipment . . .	890,000
Sundry Creditors . . .	100,000	Stores, Fuel and Supplies in hand . . .	110,000
Revenue Account balance . . .	60,000	Sundry Debtors . . .	90,000
		Cash at Bank . . .	80,000
	<u>£4,160,000</u>		<u>£4,160,000</u>

Answer. Credit Balance of Capital Statement £120,000; Totals of Second Balance Sheet £280,000.

✕ **Exercise 20M.**—From the following Trial Balance of the Great Southern Railway Co. prepare Revenue Account and Balance Sheets according to the Double Account system.

TRIAL BALANCE.		Dec. 31, 1910.	
	Dr.		Cr.
Ordinary Stock Issued . . .		£11,000,000	
4 per cent. Debenture Stock		3,300,000	
Discount on Issue of Stocks . . .	230,000		
Expenditure on Lines open for Traffic . . .	9,600,000		
Working Stock . . .	3,200,000		
Sundry Debtors . . .	100,000		
Sundry Creditors . . .		50,000	
Cash at Bank . . .	132,000		
Carried forward . . .	<u>13,262,000</u>		<u>14,350,000</u>

	Dr.	Cr.
Brought forward . . .	13,262,000	14,350,000
Operating Expenses for the year—		
Maintenance of Ways . . .	20,000	
Locomotive Power . . .	102,000	
Repairs and Renewals . . .	11,000	
Traffic Expenses . . .	168,000	
General Expenses . . .	30,000	
Debenture Interest for the year . . .	132,000	
Traffic Receipts for the year . . .		250,000
Merchandise Receipts for the year . . .		225,000
Investments in other Railways' securities . . .	1,000,000	
Stores on hand . . .	100,000	
	<u>£14,825,000</u>	<u>£14,825,000</u>

Answer. Capital unexpended £270,000; Net Revenue after paying Debenture Interest £12,000; General Balance Sheet Totals £332,000.

Exercise 20N.—Messrs. X, Y & Co., wholesale furniture dealers, sold their business to a limited company on Jan. 1, 1910, for £60,000. The company acquired for that sum the business as a going concern with all its assets, but assumed the firm's current liabilities on Dec. 31, 1909, amounting to £5,000. The Balance Sheet of the firm on Dec. 31, 1909, was as follows:—

<i>Liabilities.</i>		<i>Assets.</i>	
Current Trade Creditors	£5,000	Cash at Bank . . .	£2,000
Partners' Capital Accounts . . .	38,000	Stock on hand . . .	15,000
		Sundry Debtors . . .	25,000
		Furniture, Fixtures, etc.	1,000
	<u>£43,000</u>		<u>£43,000</u>

The firm's profits for the five previous years were as follows:—1905 £3,200, 1906 £2,700, 1907 £3,300, 1908 £3,300, 1909 £4,200. During 1910 a valuer was engaged by the executors of a deceased shareholder to report to them privately as to the value of the shares held by their testator. The valuer stated that, in his opinion, "3½ years' purchase of the average profits for the last three years previous to the date of sale would have been a fair price for the Company to pay for the goodwill of the business acquired from Messrs. X, Y & Co." Upon the above data state how much in excess of the fair market price the Company paid to Messrs. X, Y & Co. for the goodwill of their business.—*Answer.* £9,400.

CHAPTER XXI

Exercise 21A.—At a recent examination the understated Balance Sheet was sent in by a candidate. Have you any criticism to offer upon it?

BALANCE SHEET.

Messrs. A & B.		December 31st, 1899.	
ASSETS.		LIABILITIES.	
	£		£
Plant Account ...	4,000	A's Capital ...	3,000
Debtors ...	8,200	Add Interest ...	150
Less Reserve (Dec. 31, 1899) ...	410		3,150
	7,790	B's Capital ...	2,000
A's Drawings ...	300	Add Interest ...	100
B's Drawings ...	200		2,100
Repairs ...	120	Creditors ...	9,800
Stock (Jan. 1, 1899) ...	3,200	A's Profits ...	1,800
" (Dec. 31, 1899) ...	4,000	B's Profits ...	1,800
	7,200	Depreciation on Plant	200
Cash ...	420	Reserve for Debtors (Jan. 1, 1899) ...	350
		Balance ...	830
	<u>£20,030</u>		<u>£20,030</u>

(London Chamber of Commerce ; Senior, 1900.)

Answer. Sides reversed, deduct depreciation from plant, Debtors' reserve wrongly treated, deduct drawings from capital accounts, repairs not an asset, stock wrongly treated, add profits to capital accounts, etc.

Exercise 21B.—The directors of a limited company issued the understated account to their shareholders. Do you approve of this document? If not, what amendments do you suggest?

BALANCE SHEET.

Dr.		December 31st, 1900.	
	£		Cr. £
To Share Capital ...	500,000	By Land, Buildings,	
„ Reserve Fund ...	100,000	Plant, Stock,	
„ Sinking Fund for		Furniture, and	
Leases ...	10,000	Goodwill ...	1,007,000
„ Mortgages and other		„ Debtors, Cash, In-	
outstanding Lia-		vestments, and	
bilities ...	535,000	Sundry Debtor	
„ Balance carried down	28,000	Balances ...	166,000
	<u>£1,173,000</u>		<u>£1,173,000</u>
	£		£
To Interim Dividend		By Balance brought	
paid ...	25,000	down ...	28,000
„ Balance carried			
forward ...	3,000		<u>£28,000</u>
	<u>£28,000</u>		

(London Chamber of Commerce ; Senior, 1901.)

Answer. All assets grouped together in a manner that gives insufficient information and may mislead. Mortgages should be

deducted from property charged. Basis on which assets are valued not stated. How is item "Balance carried down" arrived at? Appears to be a statement of affairs arrived at by single-entry methods.

CHAPTER XXIII

Exercise 23G.—After writing up the Profit and Loss Account, the general ledger balances of the Conservative Bank, Ltd., as on Dec. 31, 1901, were as follows:—Paid up capital £1,500,000; cash at Bank of England and in hand £2,600,980; Customers' Current and Deposit Accounts £17,580,000; Bills discounted, loans and advances £14,482,000; Freehold premises £380,000; rebate on bills discounted, not yet due, carried to next account £24,300; Reserve Fund £1,200,000; English Government Securities £1,250,000; other Government Securities £520,000; Profit and Loss Account (undistributed balance) £110,680; Securities pledged with public bodies £81,000; Indian and Colonial Securities £1,101,000. On the same date (Dec. 31, 1901) the acceptances on behalf of customers, and for which they were liable, appeared in the "Acceptances Book" of the bank at £1,725,420. Prepare a Balance Sheet as on Dec. 31, 1901. (*London Chamber of Commerce; Senior, 1902.*)—*Answer.* Balance Sheet totals £22,140,400.

CHAPTER XXIV

Exercise 24G.—On Dec. 31, 1900, the balances of the General Ledger of the Holdfast Assurance Company were as follows:—Funds as on Dec. 31, 1899, £1,557,060; Premium Account £142,000; Claims Account £70,050; Annuities paid £1,260; Commission Account £6,032; Interest and Dividends Account £51,000; Transfer Fees Account £105; Surrenders Account £11,201; Management Expenses Account £18,670; Shareholders Dividends Account £2,500; Claims admitted but not paid Account £7,200; Sundry Creditors Account £3,980; Mortgages in the United Kingdom £1,201,450; Loans on Policies £50,060. Investments:—Government Stocks £204,000; British Railways £138,200; House Property £7,500; Agents' Balances £12,200; Outstanding Premiums £9,200; Outstanding Interest £12,040; Cash at Bank £16,982. Prepare Revenue Account and Balance Sheet as on Dec. 31, 1900.

NOTE.—This question was set in 1901. Prepare the necessary accounts in the form required under the Assurance Companies Act 1909, and state what further details are necessary in order to comply with the new Act.

(*London Chamber of Commerce; Senior, 1901.*)

Answer. Funds at end of 1900: £1,640,452; Balance Sheet Totals £1,651,632.

Note.—The answer to Ex. 15i on p. 733 is based on the assumption that the Current Accounts were to be closed into the Capital Accounts at the close of each half-year.

CHAPTER XXXI

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1908.

STAGE I.—ELEMENTARY.

[3 hours allowed.]

1. What is a voucher? Briefly describe the system upon which you would arrange vouchers in a business.
2. What entries are necessary in my books to record the fact that A. has become my creditor for goods supplied by him to me?
3. In the following account—

JOHN JONES in account with WILLIAM SMITH.

1908.

Feb. 22. To Welsh Coal supplied, by J. Jones's order to
S. McNeil, at Glasgow £256 5 10
who owes the £256 5s. 10d., and to whom is it owing?

4. Write up a Cash Book recording the following transactions—

		£	s.	d.
1908.				
Jan. 1.	Balance in hand this day	217	10	1
„ 3.	Paid into Bank	100	0	0
„ 4.	Received from Tom Smith	69	10	0
„ 4.	Allowed Discount to him	0	10	9
„ 7.	Received from E. Owen and paid into Bank	116	1	9
„ 10.	Paid one quarter's Rent	30	0	0
„ 10.	Paid G. Nash by cheque on Bankers	151	12	10
	Discount allowed thereon	4	7	2

Balance the account and bring down the balance.

5. On which side of the following accounts should the balance, if any, always be, and why?—

Bills Payable, Bills Receivable, Cash.

EXERCISE.

6. On December 1, 1907, Charles Dickson commenced business with the following Assets: Cash at Bank, £500; Cash in hand, £100; and Fixtures, £150. The following transactions took place during December—

Dec. 2. Purchased Goods of T. Bell, value £100; Dec. 3. Purchased Goods of Black & Co., value £80, for cash, and paid him for same; Dec. 9. Sold to W. Brown Goods value £50; Dec. 16. Paid T. Bell's Account by cheque, less 5 per cent. Discount; Dec. 18. Sold Goods to R. Walters value £10; Dec. 31. Received of W. Brown cash in settlement of his account, less 2½ per cent. Discount. Open the necessary Ledger accounts and post direct the above facts and transactions. Balance these accounts as on December 31, 1907, and bring down the balances.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1908.

STAGE II.—INTERMEDIATE.

[3 hours allowed.]

(Only one question to be answered, but both exercises to be worked.)

1. On which side of the Ledger would you expect to find the balance of the undermentioned accounts? Give a brief reason in each case—

- (a) Reserve for Bad and Doubtful Debts.
- (b) Goodwill Account.
- (c) Suspense Account for Insurances paid in advance.
- (d) Freehold Property Account.

2. Explain the following: "Reserve Fund," "Rebate," "Sinking Fund," "Depreciation."

EXERCISE I.

John Druce, a Cycle Dealer, had on December 31, 1907, the following Assets—

	£	s.	d.
Cash at Bank	300	0	0
Cash in hand	25	0	0
Stock	650	0	0
Furniture and Fittings	120	0	0
Bills Receivable—			
A. Graves (due Jan. 9, 1908)	75	0	0
B. Walters (due Jan. 10, 1908)	125	0	0
Owing by—			
A. Brown	25	0	0
J. Smith	45	0	0
A. Graves	20	0	0
B. Walters	10	0	0
M. Robinson	105	0	0
	<u>£1,500</u>	<u>0</u>	<u>0</u>

His Liabilities on the same date were—

	£	s.	d.
Due to H. Sweeting	150	0	0
Due to A. Fisher	75	0	0
Bills Payable—			
S. Unwin (due Jan. 6, 1908)	90	0	0
F. Lord (due Jan. 8, 1908)	85	0	0
	<u>£400</u>	<u>0</u>	<u>0</u>

John Druce agreed to take M. Robinson into partnership conditionally upon the amount owing by him to John Druce on December 31, 1907, being paid at once; also upon his bringing into the business, in cash, the same amount of capital as was standing to the credit of John Druce's Capital Account at this date. One-half of this latter amount was to be paid out in cash, by way of premium, to John Druce, and was to appear in the books of the partnership as Goodwill. These conditions were duly carried out as on January 1, 1908.

You are required to make the necessary entries recording the above and to pass through the proper books the following transactions—

1908.

- Jan. 1. Bought of H. Sweeting 1 dozen Bicycle Frames at 15s. each.
- „ 1. Bought for cash 4 dozen Wooden Crates at 3s. each.
- „ 2. Sold A. Brown 3 Bicycles at £7 10s. each, one of which was returned on January 3.
- „ 3. J. Smith paid his account, deducting £2 for Bicycle damaged in transit.
- „ 3. Sold B. Walters 2 Bicycles at £8 8s. each, charging him with 2 Crates at 3s. 6d. each.
- „ 3. Bought of A. Fisher 6 pairs of Wheels at 30s. a pair and a job lot of Accessories for £5.
- „ 4. Paid Office Salaries and Wages, drawing and cashing a cheque for same, £6 10s.
- „ 4. Each partner drew out in cash £3 on private account.
- „ 6. Paid A. Fisher by cheque £25 on account.
- „ 6. Bill Payable (S. Unwin), due this day, paid by Bank.
- „ 6. Sold J. Smith 1 Bicycle for £7 10s., upon which he paid £2 on account.
- „ 7. Bought for cash 2 second-hand Bicycles at 15s. each, one of which was sold for cash the same day for 25s.
- „ 7. Cashed cheque for £10 for Petty Cash purposes.
- „ 8. Bill Payable (F. Lord), due this day, paid by Bank.
- „ 8. B. Walters paid the balance of his account as on this day, deducting 5 per cent. Discount, which was disallowed.
- „ 9. Bill Receivable given by A. Graves returned dishonoured, a new Bill at 1 month being given for the whole of his account.
- „ 9. Sold to B. Walters 20 Brakes at 2s. each and 6 Lamps at 5s. each.
- „ 9. Bought of F. Lord 6 dozen Lamps at 3s. each.
- „ 10. Bill Receivable, B. Walters, duly met.
- „ 10. Sold A. Graves a second-hand Bicycle for 30s.
- „ 11. Paid Office Salaries and Wages, drawing and cashing cheque for £6.
- „ 11. Each partner drew in cash £3 for private purposes.
- „ 11. A. Brown accepted a Bill at 3 months drawn upon him for the balance owing by him at this date.

All moneys received were paid at once into the Bank. Balance the Ledger accounts as on January 11, 1908, bring down the balances, and extract a Trial Balance.

Note.—No Profit and Loss Account or Balance Sheet to be prepared.

EXERCISE II.

From the following Trial Balance of the accounts of a Manufacturing Company (whose authorized Capital consists of 15,000 Ordinary Shares of £10 each) prepare a Trading Account and a Profit and Loss Account for the year ended December 31, 1907, and a Balance Sheet as on that date.

	£	s.	d.	£	s.	d.
Capital issued and fully paid up, 9,000 shares of £10 each				90,000	0	0
Stock (January 1, 1907)	32,000	0	0			
Cash in hand	150	0	0			
Cash at Bank	2,900	0	0			
Purchases	52,350	0	0			
Sales				136,500	0	0
Sales Returns	400	0	0			
Purchases Returns				750	0	0
Manufacturing Charges	11,500	0	0			
Manufacturing Wages	28,550	0	0			
Salaries	1,500	0	0			
Trade Expenses	6,850	0	0			
Rates and Taxes	250	0	0			
Insurance	190	0	0			
General Expenses	2,640	0	0			
Discounts (balance)	1,800	0	0			
Bad Debts	570	0	0			
Interest and Bank Charges	350	0	0			
Land and Buildings	22,250	0	0			
Machinery and Plant	35,600	0	0			
Sundry Debtors	52,500	0	0			
Sundry Creditors				21,750	0	0
Patents	5,000	0	0			
Bad Debts Reserve (January 1, 1907)				2,600	0	0
Profit and Loss (balance, December 31, 1906)				750	0	0
Reserve				5,000	0	0
	<u>£257,350</u>	<u>0</u>	<u>0</u>	<u>£257,350</u>	<u>0</u>	<u>0</u>

Charge depreciation on Land and Buildings Account at 3 per cent. per annum, and on Machinery and Plant Account at 6 per cent. Make a reserve of 5 per cent. on the Sundry Debtors for Bad Debts; write down Patents Account by 10 per cent.; carry forward £90 of Insurance; and charge £500 as Directors' Fees. The value of the Stock as on December 31, 1907, was agreed at £23,700. Charge 10 per cent. on net profits as remuneration to the Managing Director, and appropriate £2,500 to the Reserve Account, carrying forward the balance.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1908.

STAGE III.—ADVANCED.

[3 hours allowed.]

1. If, on comparing your Bank Cash Book balance with your Bank Pass Book balance, you found that the two did not agree, what steps would you take to check the correctness or otherwise of your Bank Cash Book, and what would be the principal differences you would expect to find?

2. What is a "Cumulative Preference Share"? The A. B. Company is three years in arrear with the dividends on its 1,000 6 per cent. Cumulative Preference Shares of £1 each. Would this fact affect the annual accounts? If so, how?

3. Give what you consider would be a satisfactory ruling for the Cost Sheet of a manufacturer, with whose accounts you are familiar. State from what books of account the necessary information for the completion of the Cost Sheet would be obtained.

4. A. and B. are partners in A. and B.'s Coal Stores, and they share profits and losses equally. On December 31, 1907, they had capital in the business: A. £3,100 and B. £2,600. The assets and liabilities of the firm, as on that date, stood at the following figures in the books: Office Furniture and Fittings, £320; Coal Trucks, £930; Trade Creditors, £848; Cash at Bank, £1,166; Carts, Plant, and Horses, £476; Bills Payable, £652; Sundry Debtors, £3,720; Cash in hand, £18; and Stock of Coal, etc., £570.

They agreed to take into partnership C., a coal agent, as from January 1, 1908, on the following terms:—Profits and Losses to be shared: A. two-fifths, B. two-fifths, and C. one-fifth. C. was to bring into the Partnership "Book Debts," amounting to £560 (less a reserve for Bad Debts of 5 per cent.), and the Goodwill of his connection, valued at £310: while his Capital in the new firm was to be £1,000, the balance of which he was to pay in cash on signing the Articles of Partnership on January 1, 1908. It was further agreed between A., B. and C. that the following adjustments should be made in the figures as shown on A. and B.'s Balance Sheet on December 31, 1907: The Coal Trucks were to be taken at £1,000, and the Carts, Plant, and Horses as at £550, the result of an independent valuation; a Bad Debt Reserve of $7\frac{1}{2}$ per cent. was to be deducted from outstanding Debtors; the Goodwill of the old firm (A. and B.) was to be taken at £455; and A. was to be paid out from the Bank Balance such a sum as would make his Capital equal to B.'s. The Agreement was carried out.

You are required (a) to make the Journal entries necessary to complete the above adjustments, and (b) to draw up a Balance Sheet showing the position of the new firm as on January 1, 1908.

EXERCISE.

The Albury Mining Company, Ltd., was registered on January 1, 1907, and commenced operations at once as an Exploring and Mining Company. The nominal Capital consisted of 50,000 Ordinary Shares of £5 each. Of this Capital 20,000 shares were issued and taken up by the public, 30s. per share being called up. During the process of sinking a shaft, a good deposit of clay was found, suitable for tile-making, and the Company decided to manufacture and sell tiles, as a separate trading department. During the month of December, the Company's engineer reported that a paying vein of tin had been reached; and the Directors decided that the cost to date of opening up this vein should be capitalized and written off over future years when the property was in full working order.

On December 31, 1907, the balances of the Ledger accounts of the Company were as follows:—

	£	s.	d.
Freehold Land at cost	7,000	0	0
Buildings at cost	563	0	0
Preliminary Expenses	410	0	0
Stock of Stores and Coal on December 31, 1907	988	0	0
Coal consumed	931	0	0
Wages	3,843	0	0
Salaries	308	0	0
Stores used	2,745	0	0
Stores used (Tile Dept.)	56	0	0
Wages (Tile Dept.)	2,733	0	0
Machinery and Plant at cost	12,038	0	0
Capital	30,000	0	0
Sundry Debtors	359	0	0
Rates, Taxes, Office, and Sundry Expenses, and Carriage	584	0	0
Carriage (Tile Dept.)	215	0	0
Legal Expenses (<i>re</i> Claim for injuries in Mine Accident)	220	0	0
Sales of Tiles	2,599	0	0
Sundry Creditors	3,407	0	0
Tramway Track and Wagons at cost	1,100	0	0
Travellers' Commission (Tile Dept.)	63	0	0
Bills Payable	627	0	0
Cash at Bank	2,477	0	0

You are required to prepare (*a*) an account showing the amount which you consider should be capitalized as representing the cost of opening up the tin vein, (*b*) an account showing the trading results of the Tile Department for the year ended December 31, 1907, and (*c*) the Balance Sheet as on December 31, 1907.

The Directors decided that a charge of £343 should be made against the Tile Department, as representing power, coal, etc., used; and a charge of £104, as representing a share of general trade expenses.

The stock of tiles on hand as on December 31, 1907, was valued at £718.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1909.

STAGE I.—ELEMENTARY.

[3 hours allowed.]

1. What do you understand by the terms "balance down," "trial balance," and "balance sheet"? What is the chief difference between the last two? Does the term "balance down," closing the debit side of an account, mean that the account is in credit, or in debit, and why?

2. Give a form of Cash Book you would recommend as suitable for recording both cash and bank transactions. Start the book with a balance at the Bank, and draw a cheque in favour of "self," the proceeds of which are to be used in making cash payments. Make six further entries on the debit side, paying all receipts into the Bank, and six further entries on the credit side, three being cash payments and three payments by cheque; balance the Cash Book and carry down the balances.

3. On February 27, 1909, John Jones sold William Smith 3 lbs. of

tea at 1s. 9d., 2 lbs. of sugar at 6½d., 2 ozs. of Jordan almonds at 2s. 6d. per lb., and 3 tins of potted salmon at 5s. 4d. the dozen. Make an Invoice of the goods supplied.

4. On April 3, 1908, Thos. Fisher sold George Kent goods to the amount of £30 15s.; on May 4, Kent paid Fisher £20 5s. on account; on April 30, Fisher sold Kent £45 10s. of goods; on May 31, Kent paid Fisher £32 10s. on account; on June 4, Kent returned to Fisher £5 10s. goods (not being up to sample); on June 12, Fisher sold Kent £42 8s. of goods; on June 30, Kent paid Fisher the balance owing upon the transactions of April 3 and 30, after deducting 2½ per cent. discount, together with a further amount of £20 on account. As on June 30, Fisher sent a three months' statement to Kent. Draw the statement so sent.

5. On May 31, 1908, George Kent paid Thos. Fisher £32 10s. He paid this by cheque on the Credit Banking Company, Ltd. Sketch the form of cheque he would use, and "draw" it, making it as secure as you can against loss by theft or mischance.

EXERCISE.

6. On January 1, 1908, J. Ferguson started business as a grocer, and paid £200 into the Union Bank by way of capital. On that day goods were delivered by McDonald & Co. to him which he had previously ordered to the value of £50, and for which he paid by cheque, deducting 5 per cent. discount for cash. The same day he made "cash sales" amounting to £4 6s. 2d., which he paid into the Bank.

On January 2, he drew and cashed a cheque for £5 for petty cash purposes and purchased for cash 5s. worth of stamps and 15s. worth of stationery. The cash sales on this day amounted to £1 7s. 7d., which he paid into the Bank; and he also sold goods on credit to Mrs. Murphy amounting to £2 4s. 6d., and to Mr. Graham amounting to £1 4s. 4d.

On January 3, he bought further goods from McDonald & Co. amounting to £25 16s. 10d., but this time the purchase was on "credit terms." On January 4, Mrs. Murphy paid £1 on account of the goods supplied to her, and this amount (together with the cash sales for two days, £4 3s. 7d.) was paid into the Bank. On the same day he supplied goods amounting to £1 16s. 10d. on credit to Mr. Graham, who, at the time of ordering, paid for the goods supplied on January 2, less 4s. 4d. discount, and this amount was paid to the Bank. On January 5 he bought goods on credit from W. McNab & Sons amounting to £14 12s. 8d., and paid McDonald & Co.'s account, less 5 per cent. discount, by cheque.

Open Ledger Accounts and post direct the above transactions. Then balance the accounts, and bring down the balances.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1909.

STAGE II.—INTERMEDIATE.

[3 hours allowed.]

(Only one question to be answered, but both exercises to be worked.)

1. Explain briefly the following: "Goodwill," "Dead Rent," "Bill of Lading," "Bill of Sale," "Letter of Credit."

2. Which of the balances of the following accounts would you expect to find in the Balance Sheet, which in the Trading Account, and which in the Profit and Loss Account? Give your reasons in each case.

- (a) Machinery Repairs and Renewals.
- (b) Discounts allowed.
- (c) Unexpired proportion of apprentice premiums.
- (d) Transfer fees.
- (e) Unclaimed dividends.
- (f) Stock of goods and materials on hand.

EXERCISE I.

J. Bennett & Co., Ltd., had, on December 31, 1908, the following Ledger balances—

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
Ordinary Share Capital				5,000	0	0
Preference Share Capital				5,000	0	0
Sundry Creditors—						
J. Jinks £200	0	0				
F. Flint 800	0	0				
J. Smith 150	0	0				
Johnson & Co. . . . 250	0	0				
				1,400	0	0
Profit and Loss Account				1,000	0	0
Stock 3,000	0	0				
Buildings 6,000	0	0				
Cash at Bank 1,000	0	0				
Bills Receivable—						
W. Cox (due Jan. 5, 1909) £250	0	0				
J. Cooper & Co. (due Jan. 7, 1909)	250	0	0			
				500	0	0
Sundry Debtors—						
Thomas Green £100	0	0				
W. Cox 50	0	0				
J. Cooper & Co. . . . 150	0	0				
A. Black & Co., Ltd. 250	0	0				
J. Jones 300	0	0				
Cook & Co. . . . 1,050	0	0				
				1,900	0	0
				<u>£12,400</u>	<u>0</u>	<u>0</u>
				<u>£12,400</u>	<u>0</u>	<u>0</u>

You are required to open Ledger accounts recording the above and to pass the following transactions through the proper books to the Ledger.

1909.

- Jan. 1. Drew and cashed Petty Cash cheque, £5.
 „ 1. Sold W. Cox 120 yards of Silk at 5s. 6d. per yard.
 „ 2. Accepted Bills drawn by F. Flint, viz. three for £250 each, drawn at one month, two months and three months respectively. Paid Flint the balance of his account by cheque, deducting $2\frac{1}{2}$ per cent. discount on the whole account as on December 31, 1908.
 „ 2. Bought for £4 10s. a parcel of Silk.
 „ 2. Drew and cashed cheque for Petty Cash and Wages, £15.
 „ 2. Paid Wages in cash, £12 10s.
 „ 4. Received from J. Cooper & Co. £50 on account.
 „ 4. Sold Thomas Green 20 yards of Irish Linen at 3s. per yard.
 „ 4. Bought of F. Flint 75 yards of Irish Linen at 2s. per yard.
 „ 5. Received fees on transfer of shares, 10s.
 „ 5. Paid, by cheque, Tool & Co., £47 10s. for repairs to buildings.
 „ 5. W. Cox's Bill due and paid to Bankers.
 „ 6. Sold A. Black & Co. 150 yards of Black Silk at 10s. per yard.
 „ 6. A. Black & Co. paid the whole of their account less 5 per cent. discount.
 „ 7. J. Cooper & Co.'s Bill due but not met. Two new Bills of equal amount given at one month and three months respectively to cover the whole amount due from them.
 „ 8. Bought of J. Jinks 9 pieces of Velvet, each of 40 yards, at 8s. 6d. a yard.
 „ 8. Received of Cook & Co. £250 on account.
 „ 8. Received a first and final dividend of 5s. in the £ on Thomas Green's account.
 „ 9. Paid, in cash, Carriage Account, 30s. Paid, by cheque, Legal Expenses, £7 10s. Purchased Postage Stamps, £2. Paid, by cheque, Stationery Account, £1 15s. Drew and cashed cheque for Petty Cash and Wages, £17 10s. Paid Wages in cash, £14.
 „ 11. Received of J. Jones the amount of his account, less $2\frac{1}{2}$ per cent. Paid J. Smith the amount of his account less a discount of $2\frac{1}{2}$ per cent., after taking into consideration an allowance made by him of £10 for short delivery of Goods.

All moneys received were paid at once into the Bank. Balance the Ledger accounts as on January 11, 1909; bring down the balances and extract a Trial Balance.

Note.—No Profit and Loss Account or Balance Sheet to be prepared.

EXERCISE II.

From the following Trial Balance, extracted from the books of J. & J. Robinson, prepare a Trading Account and a Profit and Loss Account for the year ended December 31. 1908, and a Balance Sheet as on that date.

TRIAL BALANCE.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
James Robinson, Capital Account . .				5,000	0	0
Joshua Robinson, Capital Account . .				4,000	0	0
James Robinson, Drawings Account . .	437	10	0			
Joshua Robinson, Drawings Account . .	246	11	7			
Land and Buildings	2,500	0	0			
Plant and Machinery	1,426	17	7			
Furniture and Fixtures	125	8	4			
Carriage	437	1	4			
Wages (Manufacturing)	2,147	6	1			
Salaries	467	10	0			
Bad Debts Reserve (as on Dec. 31, 1907)				247	6	2
Sales				9,122	16	9
Sales Returns	176	2	7			
Bank Charges and Interest	14	4	6			
Coal, Gas and Water	72	1	7			
Rates and Taxes	84	7	6			
Discount Account (balance)				12	7	6
Purchases	4,216	17	2			
Purchases Returns				846	2	2
Bills Receivable	127	10	0			
Trade Expenses	49	7	9			
Sundry Debtors	3,781	15	9			
Sundry Creditors				1,217	15	1
Stock (Dec. 31, 1907)	2,642	14	8			
General Expenses	149	1	5			
Fire Insurance	49	15	0			
Apprentice Premium				50	0	0
Cash at Bank and in hand	1,344	4	10			
	<u>£20,496</u>	<u>7</u>	<u>8</u>	<u>£20,496</u>	<u>7</u>	<u>8</u>

Charge Depreciation on Land and Buildings Account at $2\frac{1}{2}$ per cent., on Plant and Machinery Account at 10 per. cent., and on Furniture and Fixtures at 10 per cent. Make a reserve of 5 per cent. on the Sundry Debtors for Bad Debts. Carry forward the following un-expired amounts—

	£	s.	d.
1. Fire Insurance	12	7	2
2. Rates and Taxes	24	2	6
3. Apprentice Premiums	40	0	0

Charge 5 per cent. interest on Capital but not on Drawings. Profits and Losses are to be shared in the following proportions: James Robinson, five-ninths; Joshua Robinson, four-ninths.

The value of the Stock as on December 31, 1908, was agreed at £2,939 9s. 3d.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1909.

STAGE III.—ADVANCED.

[3 hours allowed.]

1. In a business consisting of various departments, in what way would you keep the Stock Accounts so as to (a) minimize the danger of false returns by the Manager and (b) prevent theft on the part of dishonest employees?

2. A company having a Lease standing in their books at £5,000 decide to provide for depreciation by taking out a policy for leasehold redemption. How would you deal with the annual premiums in the books; and how would you adjust the accounts when the lease expires and the policy matures?

3. What do you understand by "Rebate on Bills discounted," and how would you treat this item when preparing the Profit and Loss Account and Balance Sheet of a Bank?

4. Jones, a trader, finding that, owing to his liabilities, he was unable to successfully carry on his business, executed a deed of assignment on June 30, 1908, in favour of his creditors, under which the creditors agreed to accept 1s. in the £ in full satisfaction of their debts. Brown, the largest creditor (his debt amounting to £1,000), arranged with Jones to take over the business and to pay in £300 in cash, in order to provide sufficient to pay the 1s. in the £ to the creditors, other than himself, and to furnish the necessary working capital for carrying on the business; and a legal agreement was, in due course, entered into between Brown and Jones whereby it was agreed that Brown should carry on the business until such time as Brown should, from profits earned, have recouped himself his old debt of £1,000 and the £300 advanced by him to Jones, together with the further sums it might be necessary for him to pay in, in order to carry on the business. Jones was to manage the business during that time at a salary of £1 10s. a week and 5 per cent. commission on the net profits. When the profits had reached the amount necessary to recoup Brown for his original debt and subsequent advances, it was agreed that the business should revert to Jones. The creditors on June 30, 1908, including Brown, amounted to £4,000; the debtors, who were all presumed to be good, to £500; the Stock was valued at £200 and the Furniture and Fixtures at £20. Make the Journal entries necessary for opening the new books for Brown, as on June 30, 1908. Presuming that, on December 31, 1908, Brown's books showed Creditors of £80 (not including Jones's commission for the half-year); Debtors of £700; Furniture and Fixtures, after additions and depreciation had been taken into consideration, of £25; and Cash at the Bank and in hand, £200; draw Brown's Balance Sheet as on that date, taking the Stock at a valuation of £150. It is necessary, in accordance with the terms of the Agreement for the Balance Sheet, to show the amount then due to Brown.

EXERCISE.

The Manufacturing Company, Ltd., has a Nominal Capital of 15,000 shares of £10 each; and a Subscribed Capital of 8,000 shares, fully paid up. It manufactures goods for sale at its two branches, A. and B., which sell no goods other than those of the Company's manufacture. From the following Trial Balance, extracted from the

THE MANUFACTURING COMPANY, LTD.
Dr. TRIAL BALANCE, December 31, 1908

	Head Office.			Branch A.			Branch B.			Head Office.			Branch A.			Branch B.			Cr.
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	
Freehold Premises:																			
Head Office	40,000	0	0							80,000	0	0							
Branch A.	10,000	0	0							11,247	13	2				547	12	1	
Branch B.	10,000	0	0							94,167	2	3							
Goodwill	30,000	0	0							44,267	0	2							
Plant and Machinery,																			
Head Office	3,000	0	0																
Furniture and Fixtures:																			
Head Office	500	0	0																
Branch A.	700	0	0																
Branch B.	800	0	0																
Cash in hand	6,730	1	6																
Stock in hand, Dec. 31,	14	7	2																
1907				83	2	9				2,174	2	1							
Purchases (less Returns)	11,945	5	1																
Wages	53,000	5	11	2,812	3	7	1,904	17	6										
Utilities	39,651	1	11	2,419	0	0	2,622	8	4										
Salaries	1,500	0	0	247	14	4	276	6	6										
Carriage to Branches	1,500	14	7																
Bad Debts	393	9	9	449	6	7	398	14	4										
General Expenses	517	9	2	9,016	4	6	1,708	6	8										
Goods from Head Office				94,167	2	3	44,987	0	12										
Bad Debts				1,553	8	2	746	17	13										
Sundry Debtors				9,620	9	9	5,370	3	2										
Income Tax	447	10	8																
Directors' Fees	1,000	0	0																
Auditor's Fees	105	0	0																
Branch A., Current Ac-																			
count	301	18	3																
Branch B., Current Ac-																			
count																			
	3,853	0	8																
	£231,855	17	8	£113,900	4	11	£57,440	19	0	£231,855	17	8	£113,900	4	11	£57,440	19	0	

* No amendment of these items need to be made.

books of the Head Office and Branches as on December 31, 1908, prepare, for submission to the Directors, Trading and Profit and Loss Accounts for the Head Office and for each of the Branches for the year ended December 31, 1908, and a Balance Sheet of the Company as a whole as on that date.

Notes.—Stocks on hand valued as on December 31, 1908, were—

	£	s.	d.
Head Office	10,527	4	5
Branch A.	3,024	12	1
Branch B.	1,927	9	4

Write off the following depreciations—

Head Office Plant and Machinery	10 per cent.
Furniture and Fixtures Head Office	5 „
„ „ Branch A.	5 „
„ „ Branch B.	5 „

Create a reserve for Bad Debts of $2\frac{1}{2}$ per cent. on the Sundry Debtors. Write off £5,000 from Goodwill and carry £10,000 to Reserve. All carriage on the goods sent to the Branches is paid by the Head Office.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1910.

STAGE I.—ELEMENTARY.

[3 hours allowed.]

1. Give three “business terms” and three “business abbreviations,” and explain the meaning of each.

2. When goods are sent to a customer, what is said to be sent with them (or by an early post) recording the transaction? Give an example. How does this document differ from a “statement”?

3. On January 4, 1909, John Brown purchased goods of Thomas Smith to the amount of £252 4s. 3d. On January 8, Brown returned £51 2s. 5d. of these goods as being faulty, and sent Smith £50 on account. On January 15, Brown purchased of Smith £72 5s. 8d. of goods and paid him £60 on account. On January 31, Smith sent Brown a statement showing the balance owing to Smith, and this Brown paid to him on February 1. How much was this balance? Give a copy of Brown's account in Smith's Ledger recording the above transactions.

4. Explain the meaning of the word “discount.” In what books of a trader do the records of discounts usually appear?

5. Write up a Bank Account recording the following transactions: December 1, 1909, Balance at my Bank £3,215 14s. 1d. December 2, drew cheque for self £25. December 4, paid in £9,634 received from W. Porter. December 6, drew cheque for T. Kerr £161 10s. December 6, E. Milner paid into my Bank Account £864. December 10, drew cheque for J. Coleman £10,000. December 15, drew cheque for Black & White £241 6s. 3d. December 24, drew cheque £50 for rent, and paid into Bank £91 6s. 8d. received from H. Jackson. December 31, drew cheque £25 for self. Paid into Bank £51 received from Duff Bros. Interest allowed on the account by the Bank £18 9s. 3d., and commission charged £1 2s. 3d. Balance the account and bring down the balance.

EXERCISE.

James Cripps started business as a Coal Merchant on July 1, 1909, paying (as his Capital) to his Bankers £250; purchasing, for £50, a Horse and Van from Timothy Toogood, and 60 tons of Coal at 11s. 6d. from the Stiff Colliery Company, Limited, which were duly delivered.

On July 2, he sold 15 cwt. of Coal at 1s. per cwt. for cash.

On July 3, he sold 12 cwt. of Coal at 11d. per cwt. for cash, and 5 tons at 19s. a ton to Miss Graham on credit. He paid the Stiff Colliery Company, Limited (by cheque) £25 on account and drew a cheque for £1 for Petty Cash.

On July 4, he sold 14 cwt. of Coal at 1s. 1d. per cwt. for cash, and 2 tons at 19s. 6d. a ton to Mrs. Smith on credit. He received and paid into his Bank a cheque from Miss Graham, in payment of her account, less 10s. allowed for short weight.

On July 5, he sold 20 tons of Coal at 18s. 6d. a ton to A. Evans and received from him £10 on account, which he paid into his Bank. He sent the Stiff Colliery Company, Limited, a cheque in settlement of their account, less 2½ per cent. discount.

On July 6, he paid Timothy Toogood £50 by cheque.

Open Ledger Accounts and post the above transactions *direct* thereto. Balance the accounts, and bring down the balances.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1910.

STAGE II.—INTERMEDIATE.

[3 hours allowed.]

(Only one question to be answered, but both exercises to be worked.)

1. State what is meant by the terms (a) "Nominal Accounts" and (b) "Personal Accounts." What is the name of the class to which Accounts other than the foregoing may be said to belong? Give an example of each (containing three debit and three credit entries).

2. How would you construct a "Trial Balance"? Give two examples of errors which might occur in "writing up" a set of books without affecting the "agreement" of the Trial Balance.

EXERCISE I.

A. Day and B. Comet were in partnership as engineers and founders, and on December 31, 1909, their assets were as follows—

	£	s.	d.	£	s.	d.
Stock in trade				1,342	0	0
Furniture and Fittings				264	0	0
Plant and Machinery				1,547	0	0
Cash at Bank				305	0	0
Cash in hand				8	0	0
Bills receivable—						
The Gas Engine Co. (due Jan. 4)	142	0	0			
J. Smith & Co. (due Jan. 8)	74	0	0			
				216	0	0
Owing by—						
J. Smith & Co.	172	0	0			
The Gas Engine Co.	22	0	0			
W. Owen	177	0	0			
J. Jones & Sons	285	0	0			
R. Black	162	0	0			
				818	0	0
				£4,500	0	0

Their liabilities on the same day were—

Due to—	£	s.	d.	£	s.	d.
Roberts Bros.	311	0	0			
W. Brown Son & Co.	140	0	0			
Robinson & Co.	113	0	0			
J. Green & Son	156	0	0			
				720	0	0

Bills Payable—

J. Green & Son (due Jan. 6) . . .	100	0	0			
Roberts Bros. (due Feb. 1) . . .	169	0	0			
				269	0	0
A. Day Loan Account				500	0	0
A. Day Interest Account.				11	0	0
				<u>£1,500</u>	<u>0</u>	<u>0</u>

Day and Comet were equal partners, and each had the same amount of Capital invested in the business.

Open the Ledger Accounts, showing the position of the firm as on December 31, 1909, and pass to it, through the proper books, the following transactions—

1910.

- Jan. 1. Drew and cashed cheque for petty cash and wages £15.
 „ 1. Paid wages in cash £16.
 „ 1. Paid each partner his week's salary of £3 in cash.
 „ 3. W. Owen paid his account, less $2\frac{1}{2}$ per cent. discount, and gave an order for a machine to cost £75.
 „ 3. Bought of Robinson & Co. 6 tons of Pig Iron at 51s. 2d. per ton.
 „ 4. The Gas Engine Co.'s Bill became due, but was not met. A new Bill was given at one month for the whole of their account.
 „ 4. Paid Robinson & Co. the amount of their account as on December 31, less $2\frac{1}{2}$ per cent. discount, after taking into consideration an allowance of £5 for imperfect goods supplied.
 „ 5. J. Jones & Sons paid £100 on account.
 „ 5. Bought of J. Green & Son 5 cwt. of sheet copper at £78 per ton.
 „ 6. Sold R. Black 1 ton of Pig Iron at 56s. a ton, and charged him in addition 10s. for cartage.
 „ 6. J. Green & Son's Bill became due and was duly met.
 „ 7. Sold J. Jones & Sons 3 Cutting Machines at £24 each.
 „ 7. Sold J. Smith & Co. 2 cwt. of Sheet Copper at £83 a ton.
 „ 7. Paid by cheque the amount due (on December 31, 1909) to A. Day for interest.
 „ 7. Bought for cash 12 gallons of Oil at 1s. 3d. per gallon.
 „ 8. Paid wages £13, a cheque for this amount being drawn and cashed for the purpose.
 „ 8. Paid each partner his week's salary by cheque.
 „ 8. J. Smith & Co.'s Bill became due and was duly met.
 „ 10. Bought of Roberts Bros. 10 tons of Coal at 12s. ton, and paid them (by cheque) £150 on account.
 „ 10. Sundry Cash Sales to date £31, this amount being paid into Bank this day.

1910.

Jan. 10. Drew and cashed cheque of £5 for Petty Cash purposes.

,, 10. Accepted W. Brown Son & Co.'s Bill for £140 at three months.

All moneys received were at once paid into the Bank. Balance the Ledger Accounts as on January 10, 1910; bring down the balances, and extract a Trial Balance.

N.B.—No Profit and Loss Account or Balance Sheet to be prepared.

EXERCISE II.

The Brown Box Co., Ltd., was registered with a nominal Capital of £10,000, divided into 5,000 Ordinary Shares of £1 each and 5,000 6 per cent. Preference Shares of £1 each. From the following Trial Balance, extracted from the books of the company, prepare a Trading Account and Profit and Loss Account for the year ended December 31, 1909, and a Balance Sheet as on that date—

TRIAL BALANCE.

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
Ordinary Share Capital				4,800	0	0
Preference Share Capital				3,000	0	0
Freehold Land and Buildings	3,700	0	0			
Furniture and Fixtures	946	6	10			
Stock (December 31, 1908)	1,929	14	7			
Plant and Machinery	1,727	10	2			
Rates and Taxes	87	14	1			
Carriage	422	4	8			
Trade Expenses	39	1	1			
Lighting and Heating Expenses	72	2	6			
General Expenses	127	16	10			
Discount Account (balance)				13	2	0
Preference Share Dividend (paid during the year)	171	0	0			
Ordinary Share Dividend (paid during the year)	114	0	0			
Bad Debt Reserve (as on Dec. 31, 1908)				188	14	8
Manufacturing Wages	2,014	1	9			
Salaries	505	14	8			
Sales				10,124	14	2
Sales Returns	101	2	10			
Sundry Debtors	3,764	17	10			
Insurance	39	1	2			
Directors' Fees	50	0	0			
Purchases	4,129	16	8			
Purchases Returns				94	12	4
Sundry Creditors				2,144	5	1
Profit and Loss Account (balance Dec. 31, 1908)				472	7	2
Bank Charges	10	2	1			
Cash at Bank	822	5	7			
Cash in hand	63	2	1			
	£20,837	15	5	£20,837	15	5

Before preparing the Accounts (as above required), the following adjustments are necessary—

1. Charge Depreciation on Land and Buildings at $2\frac{1}{2}$ per cent. per annum.
2. Charge Depreciation on Furniture and Fixtures at 5 per cent. per annum.
3. Charge Depreciation on Plant and Machinery at 10 per cent. per annum.
4. Make the Bad Debt Reserve up to £400.
5. Carry forward the following unexpired amounts—

(a) Insurance	£9 7 6
(b) Rates and Taxes	£17 8 2

The value of the Stock on December 31, 1909, was certified by the Managing Director at £1,721 17s. 3d.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1910.

STAGE III.—ADVANCED.

[3 hours allowed.]

1. John Garside keeps his "Sales Ledger" upon the "self-balancing" principle.

Prepare the necessary "adjustment account" as on January 31, 1910, from the undermentioned particulars—

1910.		£	s.	d.
Jan. 1.	Total debtors' debit balances at this date were	12,542	0	0
„ 31.	Total goods sold to customers for the month	21,658	0	0
	Total goods returned by customers for the month	942	0	0
	Total cash received from customers for the month	15,621	0	0
	Total discount allowed to customers for the month	968	0	0
	Total acceptances received from customers during the month	3,471	0	0
	Total acceptances dishonoured by customers during the month	542	0	0

2. A. B. and C. D. are in partnership as manufacturers of printers' type. Their annual accounts are prepared upon the usual prudent lines and duly provide for depreciation, bad debts, and like matters.

Is it probable that the net profit of the above business, as shown by the annual accounts of the firm, would be accepted by the surveyor of taxes as representing the amount assessable under Schedule (D) for Income Tax purposes? Give examples of any surcharges that you consider probable, if you are of opinion that the profit, as shown by the firm's accounts, would not be accepted as the basis of the assessment.

3. What is the chief difference between a "Receipts and Payments Account" and an "Income and Expenditure Account"? In what undertakings are these forms of accounts respectively made use of?

4. Give the "Drawing Account" of John Robertson as it would

appear in the firm's Private Ledger as on December 31, 1909, under the following conditions—

His Capital on January 1, 1909, was £5,000.

His drawings were: May 1, £250; July 1, £300; November 1, £200; December 1, £100.

His share of profits for the year was £795.

Interest is allowed by the firm's Partnership Articles on Capital, and charged on withdrawals at the rate of 5 per cent. per annum.

EXERCISE.

The Utopia Motor Works, Ltd., was registered and commenced business on February 1, 1906, with a Nominal Capital of £200,000, divided into 5,000 Preference Shares of £10 each, and 150,000 Ordinary Shares of £1 each. Of the latter 32,000 were allotted as fully paid to the vendors. The public subscribed for 4,500 Preference Shares, the whole of which were called up and paid for, and 22,640 Ordinary Shares on which 15s. per share had been called up before January 31, 1910, when the Ledger balances, in addition to the balances representing the above transactions were as follows—

BALANCES OF LEDGER ACCOUNTS.

January 31, 1910.

	£	s.	d.
Loans from Sundry Persons	930	0	0
Plant (including additions during the year, £723)	38,803	0	0
Repairs Equalization Reserve	2,648	0	0
Sales	107,866	0	0
Rates, Taxes, Gas, Water, and Insurance (including Rates for 1 year to March 31, 1910, £126, and Insurance for 1 year to March 31, 1910, £240)	872	0	0
Stock (February 1, 1909)	14,685	0	0
Bank Loan	3,400	0	0
Goodwill	22,000	0	0
Sundry Trade Debtors	8,700	0	0
Bills Payable	11,429	0	0
Calls in Arrear (Ordinary Shares)	806	0	0
Sundry Trade Creditors	18,176	0	0
Preliminary Expenses	537	0	0
Purchases (including carriage)	57,833	0	0
Wages (Manufacturing)	53,129	0	0
Salaries and Commission	1,263	0	0
Directors' Fees	2,000	0	0
Transfer Fees	17	0	0
Bad Debts	1,106	0	0
Repairs	2,182	0	0
Freehold Land and Buildings	26,782	0	0
Loose Tools	8,001	0	0
Bad Debt Reserve as on February 1, 1909	807	0	0
Advertising	2,190	0	0
Office Expenses	203	0	0
Interest on Loans	161	0	0
Profit and Loss Account. Credit balance brought forward February 1, 1909	37	0	0
Cash at Bank and in hand	37	0	0

You are required to prepare Trading Account and Profit and Loss Account for the year ended January 31, 1910, and a Balance Sheet as on that date, from the above balances, after making the following adjustments—

- (a) Reserve for Interest on Loans accrued to January 31, £26.
- (b) Reserve for the proportion of Rates and Insurance paid in advance.
- (c) The Stock on hand on January 31, 1910, was valued at £19,822.
- (d) The Loose Tools on hand on January 31, 1910, were valued at £7,285.
- (e) The Directors decided (1) that two-thirds of the expenditure on advertising was to be carried forward in suspense; (2) that the whole of the expenditure on repairs was to be charged against the Repairs Reserve; (3) that the Reserve for Bad Debts was to be fixed at 4 per cent. on the value of the Trade Debtors; (4) that 5 per cent. depreciation was to be written off the value of the Plant as on February 1, 1909; and (5) that £361 was to be written off for depreciation of Buildings.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1911.

STAGE I.—ELEMENTARY.

[3 hours allowed.]

1. Explain the meaning of the following terms and abbreviations: "Gross Profit," "Solvency," "Drawings," "B/E," "f.o.r.," "dis."
2. The cheque sent out hereunder was sent to Messrs. James Colston & Co. by post—

No. D.39654.

London, January 20, 1911.

Lloyds Bank, Limited.

Pay Messrs. Colston & Co. or order

Twenty-eight pounds ten shillings and sixpence.

£28 10s. 6d.

Robert Radford & Co.

What are cheques of this kind called?

How could R. Radford & Co. have made the cheque more difficult to cash in the event of its being stolen? and explain why.

Who are the payees of the cheque, and who are the drawers?

3. Sketch the "three column" Cash Book of George Griffiths, write in it the following particulars, and balance it as on January 7, 1911—

1911.

- Jan. 2. Balance at this date—Cash in hand, £4 18s. 6d.; Cash at the Bank, £348 12s. 10d.
- " 3. Drew from the Bank for office cash, £30.
- " 4. Paid Great Eastern Railway in cash, £1 12s. 6d.
- " 4. Paid Peter Jones, by cheque, £28 4s. 1d., after deducting £1 15s. 11d. Discount.
- " 5. Received from B. Gregory & Co., Ltd., cheque in settlement of their account (less 15s. 6d. Discount) which was paid into the Bank, £49 4s. 6d.
- " 6. Paid from Office Cash, wages, £8 12s. 6d.
- " 6. Cashied cheque, £12, for James Brown, a customer, and paid the same into the Bank.
- " 7. Received in cash from B. Bolton, £1 2s. 6d.

4. Henry Holcombe & Co. purchased four bales of Oxford Shirtings from Charles Cobourne of Bradford on February 2, 1911, at £16 per bale. On the delivery of these goods, one bale was found to be damaged; it was therefore returned to C. Cobourne on February 4, 1911.

Give the ruling of the books in which H. Holcombe & Co. would record these transactions, and make therein the necessary entries.

5. George Jennings, a trader, upon commencing business, purchased a Cash Book, a Journal, and a Ledger. He gave his clerk instructions that all his cash transactions were to be entered in the Cash Book, and that all his credit sales and purchases were to be passed through the Journal.

If you do not approve of G. Jennings' action, what course would you recommend?

EXERCISE.

On January 2, 1911, Charles Baines commenced business by paying his Capital of £500 into the Union Bank, Ltd.

His transactions for the month of January were as follows—
1911.

- Jan. 3. Purchased Cotton Goods on credit from Paul Burford, £84 10s. 1d.
- „ 3. Purchased Silk from W. Walker & Co. on credit, £74 1s. 10d.
- „ 4. Purchased from B. Burns, Velvet on credit, £102 gross, less 10 per cent. Trade Discount.
- „ 4. Drew £10 from Bank for Petty Cash purposes.
- „ 5. Sold on credit to Richard Leicester & Co., Silk, £62 10s., and Velvet, £75 8s.
- „ 6. Purchased Postage Stamps, 5s., and paid for them out of Petty Cash.
- „ 6. Paid Trade Expenses by cheque, £8 6s. 2d.
- „ 7. Received from R. Leicester & Co., cheque for the amount of their account, less 5 per cent. Cash Discount.
- „ 10. Paid Salaries by cheque, £10.
- „ 18. Purchased on credit from R. Hampton, Tweed, £65 8s. 6d.
- „ 20. Returned Tweed damaged, £6 10s., to R. Hampton.
- „ 21. Paid Paul Burford £50 on account.

Open the necessary Ledger Accounts and post the above transactions therein. Balance the accounts, and draw a "Trial Balance."

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1911.

STAGE II.—INTERMEDIATE.

[3 hours allowed.]

(Only one question to be answered, but both Exercises to be worked.)

1. What is a Bill of Exchange?

Briefly explain the following terms used in connection with Bills: "Endorsing Over," "Allonge," "Noting," "Renewed," "With Documents Attached."

2. Give an analyzed form of Sales Book, and enter therein five transactions relating to the sale of Cotton Prints, Velvet, Silk, Woollens, and Fancy Goods.

EXERCISE I.

William Bennett is in business as a Wholesale and Retail Hosier and Hatter. On December 31, 1910, his Assets were as follows—

	£	s.	d.	£	s.	d.
Stock				1,127	0	0
Furniture and Fittings				164	0	0
Plant and Machinery				83	0	0
Cash at Bank				221	0	0
Cash in hand				30	0	0
Bills Receivable—						
Robinson & Co. (due January 6, 1911).	37	0	0			
W. Lea (due February 14, 1911).	79	0	0			
				116	0	0

Sundry Debtors—						
H. Sheppard & Sons	92	0	0			
A. White & Co., Ltd.	42	0	0			
Roberts & Co.	17	0	0			
W. Lea	8	0	0			
				159	0	0

On the same day his Liabilities were—

	£	s.	d.	£	s.	d.
Bills Payable—						
S. Dove (due January 7, 1911)	211	0	0			
Robinson & Co. (due January 17, 1911)	49	0	0			
				260	0	0

Sundry Creditors—						
Robinson & Co.	34	0	0			
A. Green & Co., Ltd.	93	0	0			
S. Dove	117	0	0			
Brown Bros., Ltd.	122	0	0			
Elliott & Co.	47	0	0			
				413	0	0

He agreed to take his manager, H. Burns, into partnership as from January 1, 1911, on condition that he brought £500 cash into the business, and paid W. Bennett £250 for a third share of the profits of the business. H. Burns duly paid these two amounts on January 2, 1911.

Open the accounts of the new firm in their Ledger, and post to it, through the proper Subsidiary Books, the following transactions—

1911.

- Jan. 2. Sold to W. Lea 1 gross of Tweed Caps at 18s. 6d. per dozen.
- „ 2. Bought for cash job line of Felt Goods for £5.
- „ 3. A. White & Co., Ltd., paid their account, less 2½ per cent. Discount.
- „ 3. H. Sheppard & Sons gave a Bill for £50 at three months.
- „ 3. Bought of Robinson & Co. 3 dozen Oxford Shirts at 28s. 11d. per dozen, and 2 dozen Heather Mixture Half-hose at 8s. 6d. per dozen.
- „ 4. Bought of A. Green & Co., Ltd., 6 dozen Linen Handkerchiefs; 3 dozen Ladies' at 7s. 9d. per dozen, and 3 dozen Gents' at 8s. 3d. per dozen.
- „ 5. Paid by cheque S. Dove £50 on account.
- „ 5. Cash Sales £37.

1911.

- Jan. 6. Renewed Robinson & Co.'s Bill which was due, but was not met.
- „ 6. Sold A. White & Co., Ltd., 9 Felt Hats at 37s. per dozen, and 3 only, Silks at 7s. 9d., 10s. 6d., and 12s. 3d. each.
- „ 7. S. Dove's Bill due and met.
- „ 7. W. Lea paid his account as on December 31, 1910, less 2½ per cent. Discount.
- „ 7. Roberts & Co. paid their account, less an allowance of £3 for imperfect Goods supplied.
- „ 7. Paid by cash Wages £15, and Carriage £2.
- „ 7. Cash Sales, £49.
- „ 9. Paid Elliott & Co. £25 on account, and bought from them 2 dozen Saddlers' Braces at 15s. 6d. per dozen.
- „ 9. A. Green & Co. "drew on us" at three months for £90, and the Bill was duly accepted.
- „ 9. Bought of S. Dove 10 dozen Burlington Collars at 6s. 3d. per dozen.
- „ 10. Sold H. Sheppard & Sons 3 dozen Tweed Hats at 21s. per dozen, and 6 dozen Boys' Caps at 7s. 9d. per dozen.
- „ 10. Sold W. Lea 1½ dozen Felts at 42s. per dozen.
- „ 10. Cash Sales, £31.

All Purchases and Sales were on credit, unless the contrary is stated; and all moneys received were at once paid into the Bank.

Balance the Ledger accounts as on January 10, 1911; bring down the balances, and extract a Trial Balance.

N.B.—No Profit or Loss Account or Balance Sheet to be prepared.

EXERCISE II.

John Pearson and Allan Macgregor are in partnership as Corn Dealers. On December 31, 1910, the following Trial Balance was extracted from their books.

You are required to prepare a Trading Account and a Profit and Loss Account for the year ended December 31, 1910, and a Balance Sheet as on that date. Before preparing these accounts it is necessary to take the following matters into consideration—

- (a) Profits and Losses are to be shared, two-thirds by Pearson and one-third by Macgregor.
- (b) Interest at 5 per cent. per annum is to be charged on Capital, but not on Drawings.
- (c) Depreciation is to be charged as follows—
 1. Fixtures and Fittings, 5 per cent.
 2. Plant and Machinery, 10 per cent.
 3. Horses and Carts, 15 per cent.
- (d) The Bad Debt Reserve is to be made up to £500.
- (e) Only three quarters' Rent had been paid on December 31, and no reserve had been passed through the books for the quarter owing.
- (f) The unexpired amounts to be carried forward are—
 1. Rates and Taxes, £14 8s. 7d.
 2. Insurance, £7.
- (g) The value of the Stock in hand, as on December 31, 1910, was agreed at £2994 14s. 7d.

Give the Journal entries for the above adjustments.

TRIAL BALANCE.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
John Pearson, Capital				6,000	0	0
Allan Macgregor, Capital				3,000	0	0
Repairs and Renewals	248	2	1			
Plant and Machinery	847	10	0			
Sales				19,947	18	9
Sales Returns	742	7	8			
Stock (December 31, 1900)	2,721	14	1			
Bad Debts	89	4	0			
Cash Sales				334	2	9
Carriage	1,421	10	7			
Travelling Expenses	156	14	2			
Selling Expenses	192	1	4			
Purchases	13,728	0	6			
Purchases Returns				757	16	5
Bills Receivable	929	1	1			
Wages	1,646	13	10			
Salaries	346	2	3			
John Pearson, Drawings	650	0	0			
Allan Macgregor, Drawings	300	0	0			
Water, Gas, etc.	126	2	7			
Rent	150	0	0			
Reserve for Bad Debts				150	0	0
Insurance	30	5	2			
Trade Expenses	197	18	1			
General Expenses	203	1	2			
Discounts				4	9	7
Sundry Creditors				1,099	10	10
Sundry Debtors	5,771	4	1			
Horses and Carts	356	14	11			
Rates and Taxes	127	4	6			
Fixtures and Fittings	375	8	9			
Commission	62	12	7			
Cash in hand	46	7	1			
Bank balance				122	2	2
	<u>£31,466 0 6</u>			<u>£31,466 0 6</u>		

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1911.

STAGE III.—ADVANCED.

[3 hours allowed.]

1. The undermentioned transactions took place between Robertson & Co., of London, and Trumper & Co., of Melbourne—

	£	s.	d.
1910.			
Dec. 31. Balance owing by Trumper & Co. to Robertson & Co. at this date	500	0	0
1911.			
Jan. 7. Robertson & Co. shipped goods to Trumper & Co.	300	0	0
April 10. Bank draft received this day by Robertson & Co. from Trumper & Co.	600	0	0

1911.

April 15.	Robertson & Co. paid on behalf of Trumper & Co.—	£	s.	d.
„ 15.	Charges Orient Mail S.S. Co.	50	0	0
„ 15.	London Packing Co., Ltd.	100	0	0

Prepare the Account current, bearing interest at 5 per cent. to be rendered by Robertson & Co. to Trumper & Co., as on April 30, 1911.

2. On January 20, 1911, the Eastwood Timber Co., Ltd., allotted 500 Ordinary Shares of £1 each, numbered 18500 to 18999, to Ernest Willington, 33, Rayleigh Street, E.C., and on the same day they sent him a letter of regret with reference to the further 500 shares for which he had applied.

E. Willington paid for the shares allotted to him as follows—January 11, 1911, 5s. per share on application; January 20, 5s. per share on allotment; and 10s. per share (final call) on February 20, 1911.

On February 28, 1911, E. Willington purchased a further 500 shares, Nos. 1 to 500, on the Stock Exchange, for which he paid 21s. per share. The transfer was lodged and approved on March 6, 1911. These shares were purchased from R. Gee, 14 High Street, Burnham.

On March 31, 1911, E. Willington sold 100 shares, Nos. 1 to 100, to Peter Robinson, 14, Dowgate, Southminster, at 25s. per share, the transfer being lodged on April 1, and approved on April 3, 1911.

Show the above transactions as they would appear in the statistical books of the Eastwood Timber Co., Ltd. Ignore all questions of brokerage, stamps and transfer fees.

3. The Tinacotah Rubber Plantations, Ltd., own a rubber estate in the East. Practically all the expenditure is local, and is made in cash. The rubber harvested is sent to Hamburg for sale by auction, the net proceeds being remitted to London. The local currency fluctuates considerably.

You are required to outline briefly the system of Book-keeping you would advise the Company to employ, and to explain how you would deal with the questions of currency and exchange.

4. Describe briefly how you would convert a set of books, which had been kept on "Single-entry" methods, into the "Double-entry" system.

EXERCISE.

The Patent Rice Food Co., Ltd. was registered as a Private Company in December 1909, with a Nominal Capital of £32,000, divided into 30,000 Ordinary Shares of £1 each, and 200 Founders' Shares of £10 each. The latter shares were issued, as fully paid, to the inventor of the patent food, in consideration for the license granted by him to the Company for the sole right to manufacture under his patent. The inventor and his friends subscribed for, and were allotted, 20,204 Ordinary Shares, upon which 12s. 6d. per share was called up.

The Company started business on January 1, 1910, and on September 30, 1910, an interim dividend of 4 per cent., free of tax, was declared and paid on the paid-up portion of the Ordinary Shares.

On December 31, 1910, the Ledger Balances of the Company, in addition to those represented by the above transactions, were as follows—

BALANCES OF LEDGER ACCOUNTS.

	£	s.	d.
Advertising	1,668	0	0
Bank Loan	2,000	0	0
Bills Payable	4,741	0	0
Calls in Arrear	2	10	0
Carriage	977	0	0
Cash at Bank	1,311	0	0
Sundry Debtors	3,592	0	0
Discount on Purchases (less Discount on Sales)	93	0	0
Electrical Power for Factory	151	0	0
Extension of Leasehold Premises	2,500	0	0
Interest on Bank Loan	65	0	0
Machinery Purchased	8,451	0	0
Office Furniture	219	0	0
Office Salaries	472	0	0
Preliminary Expenses	113	0	0
Purchases	5,816	0	0
Rent, Rates, Lighting and Insurance	247	0	0
Sales	8,862	0	0
Sales Returns	119	0	0
Stationery and Office Expenses	77	0	0
Sundry Trade Creditors	1,427	0	0
Travellers' Salaries and Expenses	1,166	0	0
Wages	2,299	0	0

The Stock in hand as on December 31, 1910, was valued and certified by the Managing Director at £3,075.

You are required to prepare a Trading Account and a Profit and Loss Account for the year ended December 31, 1910, and a Balance Sheet as on that date.

Before preparing these accounts the following adjustments are necessary. (Give the Journal entries.)

- (a) The Directors decided to write off Depreciation on the machinery at the rate of 10 per cent. per annum for the 6 months during which the machines had been running.

The Directors decided that, as the full benefit had not yet been derived from the expenditure upon Advertising and Travellers' salaries and expenses, the former item should be spread over 3 years (1910 to bear a full share), and that one-half of the latter should be carried forward to 1911.

- (c) On investigation it was discovered that the Carriage Account contained items amounting to £236, representing Freight on machinery erected at the factory, and it was decided to transfer this amount to the Machinery Account. It was also found that the Wages Account included £93, representing the wages of men employed in erecting the machinery; it was decided to treat this item in the same manner.

- (d) One Quarter's Rent of the factory, amounting to £52, was owing on December 31, 1910, and must be reserved for.

LONDON CHAMBER OF COMMERCE.

EXAMINATION FOR SENIOR COMMERCIAL CERTIFICATES AND
TEACHERS' DIPLOMA, 1908.

[3 hours allowed.]

IMPORTANT NOTICE.

Candidates for the ordinary Senior Certificates may answer all or any of questions 1 to 5 (both inclusive), but must not attempt questions 6 or 7.

Candidates for the Teachers' Diploma are confined to questions 3, 4, 5, 6 and 7, and must not answer questions 1 or 2.

1. The Birchets Mineral Water Company, Ltd., sends out cases of aerated water to chemists in various parts of the country "on sale or return." Each chemist is at once debited in the Company's books with the water supplied at the price, he is to obtain for it when sold, and is allowed to deduct 10 per cent. from this value when accounting for his sales. The personal accounts of all chemists so supplied are included in the Ledger balances at the end of the year. How would you deal with these accounts when preparing the Company's Profit and Loss Account and Balance Sheet?

2. The London and Westminster Grocery Company, Ltd., has a Retail Branch in Manchester, which is supplied with all goods from London. The Branch shop keeps its own Sales Ledger, receives cash against Ledger accounts, and remits the whole of the cash received daily to the Head Office. All wages and Branch expenses are drawn for by cheque weekly from the Head Office upon the Imprest System.

From the undermentioned particulars supplied by the Branch manager show how the Branch accounts would appear in the Head Office books, and prepare a Profit and Loss Account for the Branch shop for the six months to December 31, 1907.

	£	s.	d.
Six months' Credit Sales	2,387	0	0
Returns Inwards	20	0	0
Cash received on Ledger accounts	2,384	0	0
Cash Sales	1,214	0	0
Stock, July 1, 1907	720	0	0
Stock, December 31, 1907	1,121	0	0
Debtors, July 1, 1907	1,227	0	0
Goods received from Head Office	2,178	0	0
Rent, Taxes, etc., paid	375	0	0
Wages and Sundry Expenses paid	396	0	0

3. Messrs. J. Moss & Co., of London, consign goods to the cost amount of £1,500 to their agent, J. Solomon, Hong Kong, on which they pay freight, insurance, and charges, £55, drawing on him at 90 days for £1,300. They discount the Bill at Lloyds Bank, being charged £15 therefor. They receive Account Sales of the consignment for £1,729, less Agent's Commission, etc., £71, and a draft on the Bank of Hong Kong for the balance.

Make the entries necessary to record the above transactions in the books of Messrs. J. Moss & Co.

4. An English company owns a Tea Plantation in Ceylon. All the tea produced is shipped to a London firm of tea brokers, who duly furnish Account Sales and remit proceeds to the London office

of the Company. The accounts of the detailed expenditure in Ceylon are kept in Indian currency, and are sent to the Head Office in London monthly. The Account Sales and the account of the remittances to Ceylon are kept in sterling.

What method would you adopt for dealing with the two currencies employed when writing up the Head Office books?

5. The Chiddingfold Manufacturing Company, Ltd., was registered with a Nominal Capital of £100,000, divided into 50,000 6 per cent. Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each.

The books of the Company were balanced as on January 31, 1908, on which date a Trial Balance, containing the following balances, was extracted from the books—

LEDGER BALANCES.

	£	s.	d.
Carriage, Dock Dues and Freight	4,778	0	0
Advertising	649	0	0
Fuel, Lighting and Water	2,163	0	0
Postage and Incidentals	590	0	0
Catalogues and Price Lists	416	0	0
Packing	542	0	0
Machinery Repairs	177	0	0
Stable Expenses	913	0	0
Office Expenses, Stationery, and Telephone	1,022	0	0
Ordinary Share Capital Account	5,000	0	0
Six per cent. Preference Share Capital Account	20,000	0	0
Debenture Capital Account (200 Debentures of £100 each at 4½ per cent.)	20,000	0	0
Employees' Superannuation Fund	4,360	0	0
Debenture Interest	855	0	0
Directors' Salaries	1,095	0	0
Buildings Account	908	0	0
Machinery and Plant Account	8,750	0	0
Stock on hand (February 1, 1907)	38,672	0	0
£5,000 Consols (at cost) (Investment of Employees' Superannuation Fund)	4,360	0	0
Cash in hand	210	0	0
Horses and Carts	720	0	0
Transfer Fees	1	0	0
Purchases	102,664	0	0
Purchases Returns	3,748	0	0
Factory Wages	12,704	0	0
Salaries and Travellers' Commission	10,691	0	0
Rents, Rates, Taxes and Insurance	3,173	0	0
Sales	174,493	0	0
Sales Returns	6,619	0	0
Discount Account (Debit Balance)	2,762	0	0
Bad Debts written off	203	0	0
Bank Charges and Interest	42	0	0
Legal Expenses and Audit Fee	418	0	0
Company's Contribution to Superannuation Fund	516	0	0
Debtors as per Sales Ledger	19,876	0	0
Creditors as per Bought Ledger	4,340	0	0
Bills Payable	320	0	0
Cash at Bank	5,784	0	0

Before closing the books the following adjustments are necessary—

	£	s.	d.
1. Telephone Rent paid in advance	25	0	0
2. Travellers' Commission owing	342	0	0
3. Rent due	379	0	0
4. Insurance unexpired	541	0	0
5. Reserve for Discounts, etc., on Sundry Debtors	500	0	0
6. Write off the following Depreciations—Machinery and Plant, 10 per cent. ; Carts and Horses, £214.			

The Stock on hand as on January 31, 1908, was valued at £34,839.

The Directors decide to write off the whole of the Buildings Account and to transfer £7,000 to Reserve Account from the profits of the year.

You are required to prepare a Trading and Profit and Loss Account for the year ended January 31, 1908, and a Balance Sheet as on that date.

*6. On January 1, 1907, A. owes B. £6,000, for which B. receives two Acceptances from A., one for £2,000 payable in two months, the other for £4,000 payable in four months, in each case from January 1, 1907. B. duly discounts both these Acceptances with his bankers on January 3, 1907, at 4 per cent.

Before the first Bill becomes due A. requests B. to assist him in taking it up by providing him with £1,000 in cash, and drawing a third Bill on A. for that amount at three months from the due date of the first Bill, plus interest at 5 per cent. per annum ; B. agrees to this proposal and advances the money, discounting the Bill with his bankers at 4 per cent.

A week before the second Bill for £4,000 falls due A. again asks B. to assist him to the extent of £2,500. B., however, is not in a position to do this, and, as his bankers will not discount any more of A.'s Acceptances, he arranges with A. to draw on him (B.) two Bills for £1,131 16s. 8d. and £1,408 3s. 4d. at two months and three months respectively from the due date of the £4,000 Bill. B. duly accepts these two bills and remits them to A., who discounts them with his bankers at 4 per cent., and, assisted by the proceeds, duly meets the £4,000 Bill. B. also meets his two Bills on maturity. On June 7, 1907, A. becomes bankrupt, leaving his third Bill unpaid. Make the necessary entries in B.'s books to give effect to the above transactions.

*7. State briefly how you would explain to a Book-keeping class the principles of the "Double Account System," and enumerate some classes of undertakings to which it is applicable.

* These questions are not to be attempted by Candidates other than those sitting for the Teachers' Diploma.

LONDON CHAMBER OF COMMERCE.

EXAMINATION FOR SENIOR COMMERCIAL CERTIFICATES AND
TEACHERS' DIPLOMA, 1909.

[3 hours allowed.]

IMPORTANT NOTICE.

Candidates for the ordinary Senior Certificates may answer all or any of questions 1 to 5 (both inclusive), but must not attempt questions 6 or 7.

Candidates for the Teachers' Diploma are confined to questions 1, 2, 5, 6 and 7, and must not answer questions 3 or 4.

1. A Limited Company was formed to take over an old-established

manufacturing business. The purchase price was fixed, by an agreement dated January 1, 1909, at £60,000, payable as follows—

£25,000 in £1 Ordinary Shares of the Company issued as fully paid.

£25,000 in 5 per cent. Debentures, repayable in 1919 at 105.

£10,000 in cash, payable on February 1, 1909.

The Company was duly registered with a nominal capital of £100,000, consisting of 100,000 Ordinary Shares of £1 each. On January 15, 1909, 15,000 Ordinary Shares were issued to the public and fully paid up, with the exception of £150 calls in arrear upon the allotment call.

The following is a list of the Assets and Liabilities taken over by the Company—

	£	s.	d.
Sundry Creditors	10,000	0	0
Bills Payable	5,000	0	0
Sundry Debtors	£20,000		
Less Reserve for Bad Debts	1,500		
	<hr/>		
	18,500	0	0
Stock-in-trade	10,000	0	0
Machinery and Plant	25,000	0	0
Loose Tools	4,000	0	0
Bills Receivable	2,500	0	0
Cash at Bank	5,000	0	0

Make the Journal entries necessary for opening the Company's books and the entries required to record the issue of shares to the public, assuming that 10s. per share is payable on application and 10s. per share on allotment.

2. Jones, for the mutual and temporary accommodation of himself and Brown, draws upon the latter a Bill of Exchange at three months for £600, dated January 1, 1908. Jones discounts this Bill immediately at his bankers, the rate of discount being 5 per cent., and hands half the proceeds to Brown.

Brown, for a similar purpose, and at the same time, draws a Bill at three months on Jones for £300. This he discounts at his bankers at 5 per cent. and hands half the proceeds to Jones. Brown becomes a bankrupt on March 31, 1908, and a first and final dividend of 5s. in the £ is paid on his estate on June 30, 1908.

Write up Brown's account in Jones's books. Assume, in each case, that one-half of the charge for discounting the Bill is chargeable to Brown and one-half to Jones.

3. You are preparing the Balance Sheet of a Limited Company of which you are the chief accountant, and find that there are Bills under discount amounting to £10,750. On going through the books you discover facts which point to the probability that £1,000 worth of these Bills will be dishonoured on maturity, but that there is a reasonable chance of eventually receiving 10s. in the £ on the £1,000. How would you deal with these Bills under discount, and how should they appear in the Company's published accounts?

4. Robinson, on August 31, 1907, buys from Tuck & Co. 150 tons of coal at 7s. 6d. a ton at the pit mouth, and pays for them at once by cheque, being allowed a discount for cash of 2½ per cent. He pays 1s. 3d. a ton for carriage by rail and 9d. a ton for cartage. He sells the coal to a Sheffield Manufacturing Company at 12s. 6d.

a ton on September 14, and draws a Bill, at two months, for the amount. The Bill is dishonoured at maturity, but is immediately paid by the Manufacturing Company upon demand being made to them. Draw the Bill of Exchange and make the entries necessary to record the above transactions in Robinson's books, and show what profit or loss Robinson made upon the deal after charging 10 per cent. on the original cost of the coal for establishment expenses.

5. The Engine and Motor Company, Ltd., has a Nominal Capital of £100,000, divided into 75,000 Ordinary Shares of £1 each and 2,500 6 per cent. Cumulative Preference Shares of £10 each.

The books of the Company were balanced on March 31, 1908, on which date a Trial Balance, containing the following balances, was extracted from the books—

LEDGER BALANCES.		£	s.	d.
Freehold Premises		12,675	0	0
Plant and Machinery		11,595	0	0
Ordinary Share Capital (50,000 shares, fully called)		50,000	0	0
Calls in Arrear		2,000	0	0
Preference Share Capital (2,500 shares, fully paid)		25,000	0	0
Stock-in-trade, March 31, 1907		14,665	0	0
Office Furniture		545	0	0
Loose Tools, March 31, 1907		3,125	0	0
Patterns		3,155	0	0
Patents		1,535	0	0
Profit and Loss Account (Credit Balance, March 31, 1907)		1,545	0	0
Goodwill Account		3,000	0	0
Sundry Debtors		31,215	0	0
Cash at Bank, Current Account		985	0	0
Cash at Bank, Deposit Account		10,000	0	0
Cash in hand		45	0	0
Sales		107,015	0	0
Sales Returns		975	0	0
Purchases		71,245	0	0
Purchases Returns		1,675	0	0
Sundry Creditors		12,805	0	0
Bills Payable		8,765	0	0
Manufacturing Wages		25,595	0	0
Repairs and Renewals of Plant		1,245	0	0
Coal		2,765	0	0
Gas and Water		475	0	0
Rates, Taxes and Insurance		865	0	0
Office Salaries		750	0	0
Trade Expenses		2,165	0	0
Bad Debts written off		615	0	0
Reserve for Bad Debts (March 31, 1907)		1,165	0	0
Directors' Fees		300	0	0
Carriage		4,155	0	0
Interest on Bank Deposit Account		45	0	0
Audit Fee and Legal Expenses		205	0	0
General Expenses		945	0	0
Discounts, allowed to Debtors		1,235	0	0
Discounts received from Creditors		875	0	0
Preliminary Expenses		350	0	0
Travelling Expenses		465	0	0

Before closing the books the following adjustments are necessary—

(1) A portion of the premises has been sublet, since January 1, 1908, at £80 per annum, and the rent due to date has not been paid or passed through the books.

(2) The insurance unexpired amounts to £30.

(3) Eleven months only of the Office Salaries have been paid. One month's salaries were owing on March 31, 1908.

(4) Make the Reserve for Bad Debts equal to an amount representing 5 per cent. on the Sundry Debtors (excluding Sundry Debtors for rent).

(5) Write off the whole of the preliminary expenses.

(6) Write off the following depreciations—

(a) Plant and Machinery	.	.	.	10	per cent.
(b) Office Furniture	.	.	.	10	"
(c) Patterns	.	.	.	15	"
(d) Patents	.	.	.	20	"

The Stock-in-trade on March 31, 1908, was valued at £23,995, and the Loose Tools at £2,730.

You are required to prepare Trading and Profit and Loss Accounts for the year ended March 31, 1908, and a Balance Sheet as on that date.

What dividend, if any, would you recommend the Directors to propose, taking into consideration the fact that the dividend on the Preference Shares for the year ended March 31, 1907, has not been paid?

*6. A Limited Company has a Nominal Capital of £250,000, in 25,000 shares of £10 each. Of these, 4,000 shares were issued to the vendors as fully paid, 8,000 shares were subscribed for by the public, and during the first year £5 per share was called up. 2,000 shares were issued, as fully paid, to persons other than the vendors, in payment for property purchased. On the 8,000 shares subscribed for by the public there had been paid at the end of the first year—

On 6,000 shares, the full amount called
„ 1,250 shares, £4 per share
„ 500 shares, £3 „
„ 250 shares, £2 „

The Directors forfeited the 750 shares on which less than £4 had been paid.

You are required to submit Journal entries recording the Capital transactions of the Company, and to set out the Capital as it should appear in the Company's Balance Sheet at the end of the first year.

*7. Describe briefly the books of account which you would expect to find in use in a bank. State what the "General Ledger" of a bank should contain, and what information you would expect it to afford.

* These questions are not to be attempted by Candidates other than those sitting for the Teachers' Diploma.

LONDON CHAMBER OF COMMERCE.
EXAMINATION FOR SENIOR COMMERCIAL CERTIFICATES AND
TEACHERS' DIPLOMA, MAY 1910.

IMPORTANT NOTICE.

Candidates for the ordinary Senior Certificates may answer all or any of questions 1 to 5 (both inclusive), but must not attempt questions 6 or 7.

Candidates for the Teachers' Diploma are confined to questions 1, 2, 5, 6 and 7, and must not answer questions 3 or 4.

1. What is the difference (if any) between "Fixed" and "Floating" assets?

Designate to which class the undermentioned assets, the property of a boot manufacturer, belong—

Book Debts; Stock-in-trade; Consols £200; Plant and Machinery; Freehold Land; Bills Receivable; Goodwill; Patents.

*2. You are required to prepare the return, for Income Tax Assessment under Schedule (D), for the current year from the following particulars which relate to the business of Messrs. Boorman & Bashall, who share profits equally.

The Profit and Loss Accounts prepared by the firm's accountants showed the following results: 1907 profit, £3,219; 1908 profit, £1,294; 1909 profit, £1,984.

Before arriving at the above profits the following items were charged in the accounts—

	1907.	1908.	1909.
Interest on Capital	£490	£510	£520
Income Tax (Schedules (D) & (A))	67	72	84
Partners' Salaries	300	300	300
Depreciation on Plant	150	165	151
Charitable Donations	15	16	20

The firm's premises are freehold and are assessed for Property Tax (Schedule (A)) at £600 per annum. The surveyor of taxes for the district declines to allow the above provisions for depreciation, but agrees to an annual allowance of £100 for wear and tear.

Mr. Bashall holds a policy of assurance, with a British office, upon his own life, the annual premium upon which amounts to £56.

3. Robert Webber keeps his books by the "single entry" method. His financial position on December 31, 1908, was as follows—

	£	s.	d.
Cash in hand	12	10	0
Stock-in-trade	642	15	0
Fixtures and Fittings	89	0	0
Cash at Bank	153	0	0
Sundry Debtors	421	10	0
Machinery and Plant	981	0	0
Sundry Creditors	1,209	15	0

During the year Robert Webber withdrew from the business, for private purposes, the sum of £480.

* Colonial and Indian candidates may, if they prefer, answer Question No. 6 in place of Question No. 2.

On December 31, 1909, Webber's financial position was as follows—

Machinery and Plant, £1,350 10s. ; Fixtures and Fittings, £80 10s. ; Sundry Debtors, £732 ; Stock-in-trade, £950 10s. ; Cash in hand, £15 ; Bank overdraft, £500 ; Sundry Creditors, £1,400 10s.

From the above particulars prepare a statement showing the profit made by Robert Webber for the year ended December 31, 1909. When preparing this statement no depreciation need be written off any of the assets, and no provision for bad and doubtful debts is necessary.

4. What is an "Account Sales"? In what particulars (if any) does it differ from a "Consignment Account"?

On October 15, 1909, Delmaine Bros., of London, shipped to Donnison & Sons, of Port Elizabeth, 60 cases of mixed Sheffield goods. These goods were invoiced *pro forma* at £32 10s. per case.

The London payments in connection with this consignment were : Insurance, £10 12s. ; freight, £54 12s. ; sundry charges, £3 15s.

The payments made by Donnison & Sons, in South Africa, were : Storage, £16 12s. ; Landing charges, £6 10s. ; Insurance, £2 11s.

On December 15, Donnison & Sons sold 30 cases of goods at £45 per case, on December 17 25 cases at £50 per case, and, on December 19, the balance of the consignment at £51 per case. All the above sales were effected for prompt cash. A commission is payable to Donnison & Sons of 2 per cent. on all sales plus $1\frac{1}{2}$ per cent. *del credere* commission.

On November 1, Delmaine Bros. drew a Bill on Donnison & Sons for £1,000. This draft was duly accepted.

Prepare an "Account Sales" showing the result of the above consignment, and show how the transactions would appear in the books of Delmaine Bros.

5. The Wayside Boot Co., Ltd., was registered with a nominal Capital of £50,000, divided into 10,000 Preference Shares of £1 each, and 800,000 Ordinary Shares at 1s. each.

On December 31, 1909, a Trial Balance, containing the following Balances, was extracted from the books of the Company—

LEDGER BALANCES.

	£	s.	d.
Ordinary Share Capital Account	35,820	0	0
Preference Share Capital Account	10,000	0	0
Pension Fund	4,980	0	0
Goodwill Account	5,000	0	0
Debtore Capital (100 5 per cent. Debentures of £50 each)	5,000	0	0
Pension Fund Investments	4,540	0	0
Stable Expenses	421	0	0
Machinery and Plant Account	7,455	0	0
Transfer Fees received		1	10
General Expenses	939	0	0
Cost of Trade Catalogues	256	0	0
Bank Charges	17	0	0
Company's Contribution to the Pension Fund	500	0	0
Bonus paid to Employés	763	0	0
Gas, Electricity, and Water	1,567	0	0

	£	s.	d.
Manager's Salary	1,500	0	0
Purchases	97,651	0	0
Purchases Returns	1,243	0	0
Interest paid on Debentures	238	10	0
Directors' Fees	250	0	0
Boxes and Packing	674	0	0
Bills payable	2,162	0	0
Discounts allowed	1,251	0	0
Discounts received	1,978	0	0
Sales	131,276	0	0
Sales Returns	946	0	0
Carriage	3,460	0	0
Stock in hand (January 1, 1909)—			
Finished Goods	11,264	0	0
Materials and Unfinished Goods	8,457	0	0
Cost of Repairs to Machinery and Plant	293	0	0
Debtors as per Sales Ledger	16,245	0	0
Creditors as per Bought Ledger	11,747	0	0
Bad Debts written off	315	0	0
Factory Wages	7,299	0	0
Postage and Stationery	444	0	0
Horses and Vans	946	0	0
Audit Fee and Legal Charges	274	0	0
Rent, Rates, Taxes and Insurance	1,173	0	0
Office Salaries	4,216	0	0
Bills Receivable	1,931	0	0
Advertising	470	0	0
Freehold Land and Buildings	18,442	0	0
Cash at Bank	3,259	0	0
Cash at Bank (Pension Fund).	440	0	0
Cash in hand	75	0	0
Profit and Loss Account (Debit Balance brought forward from last year)	1,236	0	0

Before closing the books the following adjustments are necessary—

- | | |
|--------------------------------------------------------------------------------------|--------------|
| i. One month's carriage is owing and has not been passed through the books | £ 472 |
| ii. Rent due to landlord but not provided for | 150 |
| iii. Value of Unexpired Insurance Premium | 197 |
| iv. Wages paid in advance | 84 |
| v. Reserve to be created for Bad Debts | 750 |
| vi. Write off the following Depreciations— | |
| (a) Machinery and Plant | 10 per cent. |
| (b) Horses and Vans | £146 |
| (c) Land and Buildings | 2½ per cent. |

The Stock as on December 31, 1909, was valued as follows—

	£	s.	d.
Finished Goods	13,241	0	0
Raw Materials and Unfinished Goods	5,192	0	0

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31, 1909, and a Balance Sheet as on that date.

*6. Messrs. Baxter & Sons, whose head office is in London, remitted £500 to their Manchester Branch on December 30, 1909. The books of the Head Office and the Branch are balanced as on December 31, each year. The above mentioned remittance did not reach Manchester until the morning of January 1, 1910. How would you deal with the amount in question in the Trial Balances of the Head Office and Branch and when preparing the combined Balance Sheet of the whole business?

*7. Is there any difference between a Receipts and Payments Account and an Income and Expenditure Account?

The following particulars relate to the Chilworth Literary Society for the year ended December 31, 1909: Subscriptions received £110; Interest received on Investment, £38; Net proceeds received from Lectures and Concerts, £232; Rent paid for use of Hall, £21; Petty Cash Payments, £10; Advertising paid, £21; Printing Expenses paid, £12 10s.

The Society holds ten 4 per cent. Debentures of £100 each in the Universal Library, Ltd. As on December 31, 1909, the Society owed £8 for Rent of Hall and £9 10s. for printing.

Prepare the Society's Annual Statements of Account for the year ended December 31, 1909.

* These questions are not to be attempted by Candidates other than those sitting for the Teachers' Diploma, except in case of Colonial Candidates, who may answer Question No. 6 in place of Question No. 2, should they prefer to do so.

LONDON CHAMBER OF COMMERCE.

EXAMINATION FOR SENIOR COMMERCIAL CERTIFICATES,

NOVEMBER 1910.

[3 hours allowed.]

1. The undermentioned figures have been extracted from the Trial Balance of the Blankshire Iron Co., Ltd., whose financial year closes on June 30.

Prepare a Furnaces Account showing the cost per ton of the Pig Iron produced, a Trading Account and a Profit and Loss Account.

BALANCES EXTRACTED FROM TRIAL BALANCE.

	June 30, 1910	£	s.	d.
Coal purchased		7,320	0	0
Coke and Limestone purchased		19,550	0	0
Ironstone purchased		7,461	0	0
Wages (Furnaces)		6,842	0	0
Sales of Pig Iron		62,446	0	0
Stock of Pig Iron (June 30, 1909)		9,402	0	0
Trade charges		5,424	0	0
Sales of Waste Materials and By-products		5,862	0	0
Office salaries		3,401	0	0
Directors' fees		1,500	0	0
Transfer fees		52	0	0
Depreciation		3,890	0	0
Interest received		321	0	0
Bad Debts		1,680	0	0

The stock of Pig Iron in hand as on June 30, 1910, was valued at £9,221.

The Pig Iron produced during the year amounted to 18,600 tons.

2. How are the profits of a Life Assurance Company ascertained?

Give a specimen of the form of account usually employed and illustrate your answer by means of imaginary figures.

3. The profits of The Paglesham Forgings Co., Ltd., were £3,542 in 1908, and £3,721 in 1909, and were duly agreed with their surveyor for Schedule (D) purposes.

The profit shown by the published accounts of the Company for the year 1910 amounted to £4,050. Before arriving at this profit the accounts had been charged with various reserves amounting to £500, and, in addition, £600 had been written off the Preliminary Expenses Account. Both these amounts were surcharged by the surveyor. The Schedule (A) assessment was allowed at £3,500.

The Company's claims for 10 per cent. depreciation on some special machinery employed by them, and for an allowance for obsolete machinery which they had scrapped, were disallowed by the surveyor, but, on appeal to the local Commissioners, an allowance under these heads amounting to £3,200 was granted.

Show the result of the above facts upon the Company's income tax return, and mention any special point which arises.

4. The undermentioned items appear in the General Ledger balances of the Loamshire Bank, Ltd.

(a) "Cash in hand £2,462,986 10s. 6d."

What does this item include and where would you place it in the published accounts of the Bank?

(b) "Loans at short notice £6,541,241 19s. 10d."

Explain briefly what this item would consist of and denote its proper place in the published accounts of the Bank.

(c) "Liabilities of customers on acceptances

£2,572,481 16s. 8d."

What does this item mean and how would you deal with it in the published accounts of the Bank?

5. J. Walters and B. Dove are in partnership as Joiners and Timber Merchants.

The following balances were extracted from their books as on June 30, 1910—

LEDGER BALANCES.

Purchases—	£	s.	d.
Timber	13,926	0	0
Ironmongery and General Stores	421	0	0
Painters' and Polishers' Materials	197	0	0
Fuel and Oil	413	0	0
Manufactured Goods	159	0	0
Land and Buildings	14,661	0	0
Machinery and Plant	6,743	0	0
Boiler and Heating Apparatus	498	0	0
Repairs and general charges	177	0	0
Loose Tools as on June 30, 1909	1,524	0	0
Freight	1,261	0	0
Stationery and Office Expenses	350	0	0
Electric Light	92	0	0
Stable Expenses	234	0	0
Joinery Sales	25,747	0	0

	£	s.	d.
Wages	12,975	0	0
Catalogues and Price Lists at cost	122	0	0
J. Walters, Drawing Account	1,500	0	0
B. Dove, Drawing Account	1,000	0	0
Discount Account (Dr. Balance)	91	0	0
Mouldings Sales	9,766	0	0
Weather Bar Sales	1,248	0	0
Bad Debt Reserve	207	0	0
Advertising	189	0	0
Office Salaries	851	0	0
Interest and Commission	374	0	0
Postage and Telegrams	132	0	0
Rent, Rates and Taxes	513	0	0
Legal Expenses and Audit Fee	127	0	0
Travelling Expenses	409	0	0
Purchases Returns	721	0	0
Sales Returns	1,624	0	0
Stock as on June 30, 1909	8,742	0	0
Sundry Debtors	12,448	0	0
Sundry Creditors	9,693	0	0
Bills Receivable	271	0	0
Cash at Bank	2,678	0	0
Cash in hand	128	0	0
J. Walters, Capital Account	20,231	0	0
B. Dove, Capital Account	17,217	0	0

Before closing the books the following adjustments are necessary—

1. Write off £500 from the Land and Buildings Account for depreciation on buildings.
2. Write off 10 per cent. depreciation from the Machinery and Plant and Boiler and Heating Apparatus Accounts.
3. Make the Reserve for Bad Debts up to £500.
4. Charge 5 per cent. interest on Capital but not on drawings.
5. Write off the whole of the cost of the catalogue and price lists.

The stock on June 30, 1910, was valued by the partners at £11,247, and the loose tools at £1,312. The profits are shared as to three-fifths to Walters and as to two-fifths to Dove.

Bills receivable, not due until after June 30, 1910, amounting to £1,114 had been discounted prior to that date.

You are required to prepare Trading and Profit and Loss Accounts for the year ended June 30, 1910, and a Balance Sheet as on that date.

LONDON CHAMBER OF COMMERCE.

EXAMINATION FOR SENIOR COMMERCIAL CERTIFICATES, AND TEACHERS' DIPLOMA, 1911.

IMPORTANT NOTICE.

Candidates for the ordinary Senior Certificates may answer all or any of questions 1 to 5 (both inclusive), but must not attempt questions 6 or 7.

Candidates for the Teachers' Diploma are confined to questions 1, 2, 5, 6, and 7, and must not answer questions 3 or 4.

1. James Jowit & Co., printers, purchased three monotype machines on January 1, 1910, at a cost of £1,000 each. The firm's

engineer reports that, with care and proper repairs, the machines will remain efficient for ten years. At the end of that period, the machines will be sold. The current market price of machines of this type after ten years' use is about £100 each.

You are asked, as book-keeper to the firm, to advise as to how the depreciation on the above machines should be treated in the books of the firm. Submit alternative methods for the consideration of the partners, and state which you prefer, and why.

2. What is meant by the term "Columnar Book-keeping"?

Prepare a form of a Columnar Ledger suitable for use in a small hotel and enter the following details—

Tuesday, January 17, 1911. Visitors' Accounts. J. Hughes, (Room 1), Balance from previous day £1 12s. 6d., Apartments 7s. 6d., Breakfast 2s. 6d., Lunch 3s. 6d., Dinner 5s., Wine 8s. 6d., Spirits 9d., Cigars 1s., Postages 6d., Laundry 3s. 4d. F. J. Griffiths (Room 5), Apartments 5s., Breakfast 2s. 6d., Tea 1s. 6d., Supper 2s., Liqueurs 9d., Minerals 1s., Bath 1s., Fire 1s. J. E. Elliott (Room 3), Balance from previous day £2 10s. 6d., Breakfast 2s. 6d., Bus to Station 6d., cash received in settlement of Bill £2 13s. 6d.

3. The undermentioned assets are the property of the Reliance Boot Manufacturing Co., Ltd. How should they be valued for Balance-Sheet purposes?

(a) Twenty debentures of £100 each in the Southern Railway of America, representing the investment of the Reserve Fund. The debentures were purchased at par, but the market price has since fluctuated between 94 and 108; the former quotation being the mean market price as on December 31, 1910, the date upon which the Balance Sheet of the Reliance Boot Manufacturing Co., Ltd., is prepared.

(b) Patents £2,000. This amount represents the original cost of the patent rights in a wetting machine. The grant of letters patent is dated January 1, 1906.

(c) Goodwill £5,000. This asset was purchased in 1905, at the price named, upon the formation of the Limited Company. The trading profits have steadily declined from £4,200 in 1906 to £2,124 in 1910.

*4. Richard Robson is in business as a manufacturing engineer, and his profits, as agreed with the surveyor of taxes, were as follows—

Year ended December 31, 1907	.	.	£4,550
" " " 1908	.	.	£4,260
" " " 1909	.	.	£3,980
" " " 1910	.	.	£3,925

R. Robson also earned the following income during the same period—

1908. Professional fees	.	.	£150
1909. Director's fees (no tax deducted)	.	.	£200
1910. Director's fees (no tax deducted)	.	.	£300

R. Robson also enjoyed the income from investments (all of which was taxed at its source) amounting to £900 per annum gross.

Robson's life was insured in a British office, the annual premium amounting to £100.

* Colonial and Indian Candidates may, if they prefer, answer Question No. 7 in place of Question No. 4.

Mrs. R. Robson possessed private income amounting to £650 gross per annum throughout the above period : all this income was also taxed at its source.

Give R. Robson's income tax return, Schedule (D), for the year ending April 5, 1912, and state the amount of tax for which he is liable.

5. The following balances were extracted from the books of the Stambridge Publishing Co., Ltd., as on December 31, 1910. The Nominal Capital of the Company consists of 10,000 Ordinary Shares of £1 each, and 4,000 6 per cent. Preference Shares of £5 each. In addition to the publishing department, the Company has a "supply department" for the sale of the various goods advertised in its publications.

You are required to prepare a Publishing Trading and Profit and Loss Account, a Supply Trading and Profit and Loss Account, and a General Profit and Loss Account for the year ended December 31, 1910, and a Balance Sheet as on that date.

The publishing stock, as on December 31, 1910, was valued at £700, and the supply stock at £4,500.

Before preparing the annual accounts it is necessary to take the following matters into consideration—

(a) £500 provision for bad and doubtful debts is to be made, no provision having been made in the past.

(b) Write off 10 per cent. depreciation on furniture, etc.

(c) Charge 2½ per cent. on the net profits of the business as Managing Director's commission.

(d) Half the cost of the designs is to be borne by each department.

(e) Write off one-third of the general advertising expenses and carry forward the balance.

(f) It was decided to pay no dividend on the Ordinary Shares for the year ended December 31, 1909, but to pay the Preference Dividend, and to transfer £2,000 to Reserve. This latter transfer has not been made.

LEDGER BALANCES.

	£	s.	d.
Copyrights Account	18,000	0	0
Directors' Fees	400	0	0
Calls in arrear (being 10s. per share on 20 Ordinary Shares)	10	0	0
Cash at Bank	1,760	0	0
Profit and Loss Account (Credit balance, Dec. 31, 1909)	4,120	0	0
Bank Charges	10	0	0
Paper and Printing	4,250	0	0
General Office Salaries	300	0	0
Engraving Blocks	150	0	0
Rent, Rates and Taxes	400	0	0
Stationery (General Office)	80	0	0
Literary Contributions	400	0	0
Insurance	30	0	0
Goodwill	4,000	0	0
Supply Department Sales	17,000	0	0
General Advertising Expenses	6,000	0	0
Designs for Publications	1,000	0	0

	£	s.	d.
General Expenses	350	0	0
Publishing Sales	5,500	0	0
Managing Director's and Secretary's Salaries	1,500	0	0
Dividend paid on Preference Shares	1,130	0	0
Furniture, Fixtures and Fittings	940	0	0
Publishing Department—Carriage	140	0	0
" " Postage and Telegrams	30	0	0
" " Advertising Expenses	150	0	0
" " Trade Expenses	110	0	0
" " Discount Account (Debit balance)	10	0	0
" " Subscribers (amounts received)	40	0	0
" " Bad Debts	20	0	0
" " Advertisements received	4,100	0	0
" " Wages and Salaries	500	0	0
Reserve Account	3,000	0	0
Cash in hand	90	0	0
Supply Department—Purchases	9,000	0	0
" " Carriage	1,200	0	0
" " Trade Expenses	150	0	0
" " Wages and Salaries	1,500	0	0
" " Discount Account (Debit balance)	30	0	0
" " Postage and Telegrams	90	0	0
Travelling Expenses	60	0	0
Ordinary Share Capital	4,790	0	0
Preference Share Capital	20,000	0	0
Bills Payable	2,200	0	0
Sundry Debtors	3,220	0	0
Stock, December 31, 1909, Publishing Department	800	0	0
Stock, December 31, 1909, Supply Department	4,000	0	0
Sundry Creditors	1,250	0	0
Bills Receivable	190	0	0

*6. A firm of motor manufacturers contracted to supply 50 cabs, on agreed dates, to a Motor Cab Company.

The agreed delivery dates were as follows—

10	Cabs on June 1, 1910.
10	" July 1, 1910.
10	" August 1, 1910.
10	" September 1, 1910.
10	" October 1, 1910.

Under the agreement the manufacturers, in case of late delivery, were liable to refund to the Cab Company any *actual loss* which might arise owing to the non-delivery of cabs on the promised dates. The manufacturers were not, however, to be liable for any loss of profit which might have been earned by the cabs if delivered as promised.

The first batch of cabs was delivered on the agreed date, the second batch was 7 days late, the third 10 days late, the fourth 15 days late, and the fifth 8 days late.

The rent and other fixed charges of the Cab Company were the same for 10 cabs as for 50, namely £30 per week.

Prepare an account showing the claim to be made by the Cab Company and explain the reasons which guided you in its preparation.

*7. How should the undermentioned items be treated in the accounts of a Limited Company?—

- (1) An issue of 1,000 Debentures of £100 each, issued January 1, 1911, at 90, repayable in 1921.
- (2) An expenditure of £5,000 on advertising a new patent medicine. The sales for the first year amounted to £1,500, but were on the up grade.
- (3) A debt owing by a director of the company.

* Questions 6 and 7 are not to be attempted by Candidates other than those sitting for the Teachers' Diploma, except in the case of Colonial Candidates, who may answer Question No. 7 in place of Question No. 4 should they prefer to do so.

NATIONAL UNION OF TEACHERS EXAMINATIONS.

ELEMENTARY, 1910.

[3 hours allowed.]

(You may answer all the questions.)

1. If you were a clerk in an office, and somebody brought you the Purchases Book and told you to post it, describe fully what you would do.

2. John Baker, merchant, had cash in hand £100 and goods on hand £200. His creditors were: B. Black, £130; G. Green, £250; W. White, £120. His debtors were: B. Bray, £50 and M. May, £80. Make out a Balance Sheet and say what it tells you about the state of his business.

3. Open a Ledger Account for Geo. Scott. Debit him with balance £20. Charge him £1 interest. Credit him with cash £15 and Goods £20. Debit him with Goods £40, and charge him £2 carriage. Balance his account, bring down the balance, and say whether he or you must pay it.

EXERCISE.

On January 1, 1910, the state of George German's business was as follows: Cash in hand, £420; Goods on hand, £510. Debtors: A. Ayres, £120; B. Baird, £75; C. Cass, £250. Creditors: D. Dan, £145 and E. Euston, £55.

You are requested to find and credit his capital. Then enter the transactions given below in suitable books, post them to the Ledger, draw out a trial Balance, balance the accounts, and make out a Profit and Loss Account and Balance Sheet.

1910		£	s.	d.	£	s.	d.
Jan.	1. Received Cash of A. Ayres				104	12	6
	Wrote off his Balance as Bad Debt				15	7	6
"	2. Received Cash of C. Cass	147	17	6			
	Allowed him Discount	2	2	6			
		<hr/>			150	0	0
"	3. Paid for Stationery				2	13	4
"	4. Cash Sales				95	4	6
"	5. Cash Purchases				85	3	4
"	6. Sold Goods to C. Cass				145	10	4
"	8. Paid Wages				7	15	6
"	10. Purchased Goods of D. Dan				75	10	8

1910.		£	s.	d.	£	s.	d.
Jan. 11.	Received Cash for a Bad Debt previously written off . . .				25	5	0
" 12.	Paid for Painting Premises . . .				10	3	6
" 13.	Drew Cash for Self . . .				15	0	0
" 14.	Charge B. Baird interest on his overdue Account . . .				1	1	6
" 15.	C. Cass paid me Cash . . .	98	13	4			
	and was allowed Discount . . .	1	6	8			
					100	0	0
" 17.	Cash paid to D. Dan . . .	107	12	9			
	Discount in addition . . .	2	7	3			
					110	0	0
" 18.	Sales to C. Cass . . .				47	15	2
" 19.	E. Euston bought Goods . . .				32	10	9
" 20.	Received Cash of B. Baird . . .				76	1	6
" 21.	F. France sold me Goods . . .				160	7	6
" 22.	Paid E. Euston Cash . . .	20	10	0			
	Discount in addition . . .	1	19	3			
					22	9	3
" 22.	Paid Wages . . .				7	15	6
" 24.	Sales to B. Baird . . .				110	10	8
" 25.	Paid D. Dan Cash . . .	33	18	6			
	Discount in addition . . .	1	1	6			
					35	0	0
" 26.	Bought Goods of E. Euston . . .				130	15	6
" 27.	B. Baird purchased Goods . . .				34	9	4
" 28.	Paid F. France Cash . . .	58	10	0			
	He allowed Discount . . .	1	10	0			
					60	0	0
" 29.	Paid Salaries . . .				32	17	6
" 31.	Interest on Capital . . .				5	0	0
" 31.	Goods on hand . . .				482	13	9

NATIONAL UNION OF TEACHERS EXAMINATIONS.

INTERMEDIATE, 1910.

[3 hours allowed.]

(You may answer all the questions.)

1. Briefly explain: Assignee, Consignee, Drawee, Lessee, Mortgagee, Payee.

2. In the exercise below, R. Roberts forwards an Account Sales to the Consignor on January 17. Write out the document in proper form, and specify the various items which might compose the charges incurred on January 13.

3. Set out a suitable ruling for a Bills Receivable Book, and enter therein from the exercise below the Bills received on January 11 and 18.

EXERCISE.

On January 1, 1910, the affairs of Vivian Grey stood as follows—Cash in Office, £120; Bank Overdraft, £1,200; Goods on hand £1,500 10s.; Freehold Premises, £7,800; Machinery and Plant £2,000; Bills Receivable, Nos. 10, 11, £450; Debtors: P. Pain

£240 15s. ; Q. Quick, £410 5s. ; R. Roberts, £320 10s. ; Creditors : S. Saul, £290 15s. ; T. Turk, £81 5s. ; Bills Payable, Nos. 20, 21, £270.

His transactions for the month are given below. You are requested to enter them in the proper books, post them to the Ledger, and make out a Trial Balance, Profit and Loss Account, and Balance Sheet. All payments, unless otherwise stated, are made by cheque ; all receipts are paid into the bank same day.

1910.		£	s.	d.
Jan.	1. Consigned to R. Roberts, to be sold on my account and risk, goods invoiced at	400	0	0
"	1. Paid Freight £12, and Insurance £8, on the above from Office Cash	20	0	0
"	3. Drew on R. Roberts at 3 months for £200 as an advance on the above consignment.			
"	4. Discounted the above draft on R. Roberts with the Bank for	197	0	0
"	4. Returned Goods to S. Saul	40	15	0
"	5. Received P. Pain's cheque	237	10	0
"	5. Discount allowed in addition	3	5	0
"	6. Received payment of Bill No. 10, £250 cheque	249	0	0
"	6. Rebate allowed	1	0	0
"	6. Paid S. Saul cheque	247	12	6
"	6. Discount in addition	2	7	6
"	7. Paid Wages	60	0	0
"	7. Cash Purchases	185	10	0
"	8. Received cheque from R. Roberts	120	10	0
"	8. Received a Consignment of Goods to be sold for the account and risk of T. Turk invoiced at	600	0	0
"	8. Paid charges on the same from Office Cash	20	0	0
"	10. Gave a customer Office Cash for a cheque	10	10	0
"	11. Bought Goods of S. Saul	120	10	6
"	11. Received R. Roberts' acceptance	200	0	0
"	12. Cash Sales	275	12	6
"	13. R. Roberts informs us that he has sold the Goods consigned to him for	500	0	0
"	13. And that the charges amount to	30	0	0
"	14. Cash received for work done	25	2	6
"	15. Discounted B.R. No. 11, £200 with the Bank for	198	10	0
"	17. Received Account Sales from R. Roberts ; and Sight Draft for	270	0	0
"	18. Sold Goods to P. Pain for his acceptance at one month	290	3	6
"	19. Bought Goods of S. Saul	230	17	6
"	19. Gave him our acceptance at 2 months	120	10	6
"	20. Received Bill from Q. Quick	210	5	0
"	20. Purchased Additional Machinery for Cheque	200	0	0
"	21. Paid Wages	60	0	0
"	21. Vivian Grey's Drawings	30	0	0
"	22. Charge Q. Quick for work done for him	75	17	6
"	22. Paid for repairs to Machinery—Office Cash	16	5	0

1910.		£	s.	d.
Jan. 24.	Paid Bill Payable No. 20	120	0	0
„ 24.	Sales to P. Pain	190	7	6
„ 25.	Sales of Q. Quick	384	2	6
„ 26.	Sold T. Turk's Consignment for Cash	760	0	0
„ 26.	Our Commission on the above	15	0	0
„ 26.	Posted Account Sales and Cheque to T. Turk for net proceeds.			
„ 29.	Paid Salaries	55	0	0
„ 29.	Sold Goods to R. Roberts	250	15	6
„ 31.	Depreciation of Premises	15	0	0
„ 31.	Depreciation of Machinery and Plant	20	0	0
„ 31.	Interest on Capital	45	0	0
„ 31.	Stock on hand	402	4	0

NATIONAL UNION OF TEACHERS EXAMINATIONS.

ADVANCED, 1910.

[3 hours allowed.]

(You may answer all the questions.)

1. The following balances composed the Balance Sheet of John Brown, Ltd. : Cash £6,000, Bills Receivable £1,200, Sundry Debtors £2,500, Stock £5,000, Capital £10,000, Bills Payable £800, Sundry Creditors £1,400, Divisible Profit £2,500.

It was resolved to start a Reserve Fund with such an amount of the Balance of Profit as would, when invested, purchase £1,500 Consols at 85 (charges neglected).

You are requested to give the necessary Journal entries to effect this; then set out Ledger Accounts for Investments, Reserve Fund, and Profit and Loss; also draw up a new Balance Sheet showing these changes.

2. The Timbuctoo Railway Company issued its prospectus on January 1, 1910, inviting applications for 200,000 shares of £5 each, payable £1 per share on application, £1 on allotment on January 10, and £3 on March 1.

In addition, there was an issue of £1,000,000 3 per cent. Redeemable Debentures, payable as to 5 per cent. upon application, and 95 per cent. on January 31. The whole of the issues were applied for and the cash duly received, with the exception that, on March 25, the directors resolved that 10 shares upon which application and allotment money had been paid should be forfeited for nonpayment of the call of £3 per share on March 1.

Give the usual Journal entries for the above transactions, omitting cash.

3. A colliery is worked under a lease granted by the Lord of the Manor at a royalty of 6d. per ton, but with a minimum annual rent of £1,200, with power to recoup short workings. During the first year, 40,000 tons are raised; second year, 44,000 tons; third year, 52,000 tons; fourth year, 50,000 tons.

Make out Ledger Accounts for Royalties, Lord of the Manor and Overpaid Royalties; and say how you would deal with the balance of Overpaid Royalties when making up the Annual Accounts.

4. From the following figures relating to the Devonshire Life Assurance Company, compile its Revenue Account and Balance

Sheet for the year ending December 31, 1909, in the prescribed form.

Shareholders' Capital, £250,000 in 2,500 Shares of £100 each, with £10 paid up on each.

	£
Shareholders' undivided Profits	33,786
Life Assurance Fund on January 1, 1909, including paid-up Capital and undivided Profits	1,825,412
Claims by death	93,067
Claims matured by survivance	47,466
Surrenders	8,636
Commission	8,224
Premiums	134,872
Interest, Dividends and Rents received	72,563
Management Expenses	25,860
Dividends to Shareholders	3,265
Fines and Fees	201
Income Tax	3,525
Written off Securities upon Re-valuation	17,089
Mortgages in United Kingdom	172,332
Loans on Company's Policies	90,152
Freehold Ground Rents	1,218,310
Claims admitted but not paid	5,846
Claims announced—not admitted	22,846
Colonial Government Securities	147,259
Railway Shares, &c.	74,145
House Property	103,292
Agents' Balances outstanding	19,976
Outstanding Interest and Rents receivable	16,938
Outstanding Premiums—Head Office	1,465
Sundry Creditors	142
Cash in hand and at Bank	5,934
Furniture and Fittings	2,857

5. The following are the balances of the Great Southern Railway for the half-year ending December 31, 1909. You are requested to make out in the prescribed form: (1) Capital Account; (2) Revenue Account; (3) Net Revenue Account; (4) General Balance Sheet.

	£
Ordinary Stock	5,192,500
4 per cent. Preference Stock	2,702,711
Debenture Stock	1,526,258
Premiums received	55,653
Expended upon lines open for traffic to June 30, 1909	9,181,704
" on the above during current half-year	44,304
" upon Working Stock to June 30, 1909	616,961
" " " during current half-year	654
" " Maintenance of Way, Stations, &c.	38,373
" " Locomotive Power	93,008
" " Carriage and Wagon Repairs	14,858
" " Traffic Expenses	61,098
" " General Charges	13,342
" " Shipping Expenses	18,190
" " Dock and Harbour Expenses and Repairs	9,871

	£
Expended upon Law Charges	2,697
" " Parliamentary Expenses	3,834
" " Compensation	354
" " Mileage and Demurrage	447
" " Rates and Taxes	31,060
" " Government Duty	395
Receipts from Passengers	106,401
" " Parcels, Carriages and Horses	9,578
" " Mails	2,641
" " Merchandise	43,508
" " Minerals	280,448
" " Shipping	19,355
" " Docks and Harbours	39,501
" " Rents	3,977
Interest on Debenture Stock	22,894
Rents payable on Leased Lines, Guarantees, &c.	31,876
Balance to Credit of Net Revenue Account, 30.6.09	62,666
General Interest Account—Credit Balance	290
Cash in hand and at Bank	45,528
General Stores—Stock on hand	39,363
Traffic Accounts due to the Company	73,658
Amounts due from other Companies	12,356
Amounts due from Post Office	1,446
Sundry Debtors	25,103
Unpaid Dividends and Interest	2,012
Debts due to other Companies	59,730
Amount due to the Clearing House	12,417
Sundry Creditors and Suspense Accounts	198,806
Fire Insurance Fund	23,945
Reserve Fund	22,419
Employees' Savings Bank Deposits	17,467

NATIONAL UNION OF TEACHERS EXAMINATIONS.

ELEMENTARY, 1911.

[3 hours allowed.]

(You may answer all the questions.)

1. Rule a model Petty Cash Book. Enter £10 Cash in hand. Pay for six different items of expense and balance your book for commencing the next period.
2. When a merchant keeps his books by Single Entry he neglects to keep certain accounts. Which are they? Also explain how he finds the profit he has made during the year.

EXERCISE.

On March 1, 1911, Samuel Sparrow, Merchant, had Cash in hand, £360 10s. 6d.; Goods on hand, £450 15s. Debtors: James Crow, £220 12s. 6d.; Thomas Finch, £150 17s. 6d.; John Jay, £270 4s. 6d. Creditors: Louis Lark, £180 17s. 9d.; Robert Rook, £200 2s. 3d.

Find and credit his Capital. Enter the transactions given below in suitable books, post them to the Ledger, draw out a Trial Balance, balance the accounts, and make out a Profit and Loss Account and Balance Sheet.

1911.		£	s.	d.
Mar.	1. Samuel Sparrow drew Cash for Self	20	0	0
"	2. Received Cash from J. Crow	210	0	0
"	2. Discount allowed in addition	10	12	6
"	3. Paid for Postages	1	7	6
"	4. Cash Purchases	210	5	3
"	6. Sold Goods to J. Crow	175	6	8
"	6. Charged him for Carriage paid on above Goods	1	13	4
"	7. Received Cash of T. Finch	147	0	0
"	7. Discount allowed in addition	3	17	6
"	8. Paid Rates	4	15	0
"	9. Cash Sales	130	2	6
"	10. T. Finch bought Goods	180	13	4
"	11. Sales to L. Lark	50	0	0
"	13. Paid L. Lark Cash	127	0	0
"	13. Received Discount from him	3	17	9
"	14. Sales to Hy. Robin	135	11	8
"	15. Purchases from L. Lark	215	10	6
"	16. Paid R. Rook Cash	195	0	0
"	16. Received Discount from him	5	2	3
"	17. Received Cash from Hy. Robin	35	11	8
"	18. J. Crow bought Goods	28	10	0
"	20. R. Rook sold me Goods	165	6	0
"	21. Received Cash of John Jay in full settlement	255	10	0
"	21. Wrote off his Balance as Bad Debt	14	14	6
"	22. Bought Goods of Charles Wren	54	2	6
"	23. Received Cash for a Bad Debt written off two years ago	27	15	0
"	24. Purchases from R. Rook	45	10	2
"	25. Paid R. Rook Cash	100	0	0
"	27. Received Cash from J. Crow	77	0	0
"	28. Paid Wages	16	17	6
"	29. Paid Rent	25	0	0
"	31. Interest on Capital	4	10	0
"	31. Stock on hand	529	14	9

NATIONAL UNION OF TEACHERS EXAMINATIONS.

• INTERMEDIATE, 1911.

[3 hours allowed.]

(You may answer all the questions.)

1. Briefly explain: Ad Valorem, Tale Quale, Accommodation Bill, Case of Need, 60 days sight, Lay Days.

2. John Brown and Henry White purchase £600 worth of Goods on Joint Account, each paying £300. In addition Brown pays £20 charges, and is to be allowed £10 commission for managing the

business. He sells the Goods for £700 cash and they share the net profit equally. Brown gives White a cheque for the total amount due to him. Make out a Joint Account and an account for Henry White as in John Brown's Ledger.

EXERCISE.

On March 1, 1911, the affairs of Sidney Sycamore, Contractor, stood as follows—

Assets: Cash in Office, £160; Cash at Bank, £1,500; Bills Receivable, No. 20, £250, No. 21, £300; John Ash, £230 12s. 6d.; William Beech, £145 7s. 6d.; Contract 1, Expenditure to Date, £2,100; Contract 2, Expenditure to Date, £1,800; Freehold Premises, £10,000; Plant and Machinery, £5,200; Stock of Materials, £1,850.

Liabilities: Bills Payable, No. 25, £290, No. 26, £175; Henry Lime, £322 10s. 6d.; Thomas Oak, £148 9s. 6d.; Contract 1, instalments received, £1,800; Contract 2, ditto, £1,200.

His transactions for the month are given below. Enter them in the proper books, post them to the Ledger and make out a Trial Balance, Profit and Loss Account, and Balance Sheet. All payments, unless otherwise stated, are made by cheque; all receipts are paid into the Bank same day.

		1911.	£	s.	d.
Mar.	1.	Received cheque for Bill Receivable No. 20, allowing Rebate	2	17	6
"	1.	Signed Contract 3, to build Westland Bridge for	4,000	0	0
"	2.	Bought Granite of Hy. Lime	315	5	6
"	3.	Materials supplied to Contract 1	275	10	0
"	3.	Materials supplied to Contract 2	150	15	6
"	3.	Materials supplied to Contract 3	75	0	0
"	4.	Paid Hy. Lime Cheque	122	10	6
"	4.	And our acceptance at 1 month	200	0	0
"	6.	Received cheque from John Ash	227	10	0
"	6.	Discount in addition	3	2	6
"	7.	Bought Bricks of Thos. Oak for 2 months Bill	275	6	8
"	8.	Contract 1. Instalment received	500	0	0
"	8.	Contract 2. Instalment received	250	0	0
"	9.	Materials in yard destroyed by fire this day. Claimed upon Insurance Co. for	30	0	0
"	9.	Received Wm. Beech's Acceptance	145	7	6
"	10.	Paid Thos. Oak cheque	146	0	0
"	10.	Discount in addition	2	9	6
"	11.	Contract 1. Paid Wages	110	14	6
"	11.	Contract 2. Paid Wages	140	7	4
"	11.	Contract 3. Paid Wages	48	3	4
"	13.	Bought Cement of Henry Lime	260	7	6
"	14.	Bought a Steam Crane from Vulcan & Co. for 2 months Bill	520	10	0
"	15.	Sent Office Cash to Bank	100	0	0
"	16.	Materials supplied to Contract 1	215	8	2
"	16.	Materials supplied to Contract 2	160	5	0

		£	s.	d.
1911.				
Mar. 16.	Materials supplied to Contract 3	255	12	6
„ 18.	Retired Bill Payable No. 25, with Cheque for	288	15	0
„ 20.	Sales to John Ash	130	15	6
„ 21.	Discounted Bill Receivable No. 21 with the Bank for	297	10	0
„ 22.	Paid for Small Repairs—Office Cash	4	12	6
„ 23.	Sidney Sycamore's Drawings	40	0	0
„ 24.	Contract 1. Paid Wages	150	10	2
„ 24.	Contract 2. Paid Wages	100	8	4
„ 24.	Contract 3. Paid Wages	125	10	6
„ 25.	Received cheque from Insurance Co. in full settlement of claim	25	0	0
„ 27.	Contract 1 completed, final instalment re- ceived	1,000	0	0
„ 28.	Contract 2 completed, instalment received A balance of £350 is held back as retention money on this Contract.	950	0	0
„ 30.	Paid for Stationery—Office Cash	3	10	6
„ 30.	Paid Salaries	180	2	6
„ 31.	Bank allowed us Interest	6	3	4
„ 31.	Interest on Capital	81	13	4
„ 31.	Depreciation of Premises	20	0	0
„ 31.	Depreciation of Plant and Machinery	45	0	0
„ 31.	Stock of Materials on hand	1,458	0	0

NATIONAL UNION OF TEACHERS EXAMINATIONS.

ADVANCED, 1911.

[3 hours allowed.]

(You may answer all the questions.)

1. Give a ruling suitable for a combined Register of Members and Share Ledger.

2. Illustrate the sectional system of self-balancing Ledgers by posting direct from the exercise in the Elementary stage of this examination all the items necessary to form a complete Sales Ledger, render it self-balancing, and take out a Trial Balance.

3. Black and White are equal partners and their Balance Sheet stands as follows—

Assets: Cash, £400; Debtors, £2,000; Stock, £1,500; Machinery, £2,000.

Liabilities: Creditors, £1,800; Black's Capital, £2,900; White's Capital, £1,200.

They decide to dissolve partnership, and the Assets realize the following amounts: Debtors, £1,880; Stock, £1,200; Machinery, £1,800. They receive £100 as Discounts from Creditors, and the expenses of Realization amount to £230. Prepare Ledger accounts showing the result of the winding-up.

4. The figures given below relate to the Cornwall Colliery Company for the year ending December 31, 1910.

You are requested to construct from them a Capital Account and

General Balance Sheet on the Double Account System, and then exhibit the same figures in a Balance Sheet on the Single Account System.

	£
Nominal Capital	250,000
110,000 Ordinary Shares of £1 each fully paid	110,000
60,000 6 per cent. Preference Shares of £1 each fully paid	60,000
Debentures 5 per cent.	30,000
Bills Payable	6,000
Sundry Creditors	9,000
Lands acquired	8,500
Shaft Sinking, etc.	111,000
Plant and Machinery	35,000
Wagons	13,500
Office Buildings	3,000
Workmen's Cottages	9,000
Depreciation Fund	20,000
Reserve Fund	15,000
Balance to Credit of Profit and Loss Account	25,000
Stock on hand.	12,000
Investments	17,000
Sundry Debtors	35,000
Cash in hand and at Bank	30,000
Short Workings Account	1,000

The above figures include an issue of 10,000 Preference Shares during the year 1910; and the following amounts were also spent during the same period: Shaft Sinking, £6,000; Machinery, £5,000; Wagons, £3,000; Workmen's Cottages, £1,000.

5. From the following statement make out Trading Account, Profit and Loss Account, and Balance Sheet for the Motor Manufacturing Company, Limited, for the year ending December 31, 1910.

Write off the whole of Preliminary Expenses and depreciate Plant and Machinery, Office Furniture, Patterns and Patents at a uniform rate of $7\frac{1}{2}$ per cent. per annum.

Add £2,000 to the Sinking Fund for redemption of Debentures, and leave the Reserve for Bad and Doubtful Debts at 5 per cent. on Sundry Debtors.

Stock on hand at the above date was taken at £ 0,087.

	£
Nominal Capital 80,000 Shares of £1 each	80,000
Subscribed Capital 60,000 Shares of £1 each fully called	60,000
Calls in Arrear	1,000
Freehold Premises	18,000
Plant and Machinery	20,000
Interim Dividend paid	2,000
Debentures, 5 per cent.	20,000
Stock 31.12.09	18,750
Office Furniture	625
Patterns	6,250
Patents	3,750
Goodwill	12,000
Sundry Debtors	37,500
Sundry Creditors	16,800

	£
Cash in hand	150
Cash at Bank—Current Account	3,000
Cash at Bank on deposit	12,000
Balance to Credit of Profit and Loss 1.1.10	890
Bills Payable	15,500
Sales	122,000
Purchases	62,100
Preliminary Expenses	400
Sinking Fund for redemption of Debentures	8,000

N.B.—This is represented by Investments to an equal amount, and there is one year's interest on them at $3\frac{1}{2}$ per cent. per annum due, but unpaid, at the date of making up these accounts.

Manufacturing Wages	30,000
Repairs and Renewals	1,300
Coal	2,225
Gas and Water	175
Rates, Taxes and Insurance	1,250
Office Salaries	1,000
Travelling Expenses	1,325
General Expenses	475
Discounts allowed	2,120
Discounts received	1,780
Directors' Fees	525
Royalties paid	450
Interest on Bank Deposit	300
Bad Debts	150
Reserve for Bad and Doubtful Debts	2,250
Debenture Interest	1,000

LANCASHIRE AND CHESHIRE INSTITUTES.

JUNIOR GRADE, 1909.

[3 hours allowed.]

(You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this grade.)

Part I.

1. What is the use of the Journal? Give two examples illustrating the class of items which can be passed through the Journal.

2. What is meant by "Consignment Account"? Albert Jones sends to Jamaica, on consignment account, goods of the value of £600. He also pays for freight and insurance charges £22. What books would these entries be passed through, and how?

3. What do you understand by a "Returns Book"? Make the ruling of such a book for a company who have a number of returns, and whose business is divided into the three following departments: Woollens, cottons, silks.

4. William Robinson owes to you for goods sold to him on July 2,

1908, £275 16s. On July 6, 1908, he sends a Bill for £125 due on October 1, 1908, and also cash on account of the balance, £62 17s. 6d. On October 1, 1908, he fails to meet his Bill, and you pay for noting the dishonoured Bill, 1s. 6d. On December 31, 1908, you receive from his Trustee in Bankruptcy a first and final dividend of 6s. 8d. in the £. Show William Robinson's Ledger Account in your books.

5. What is meant by—

- (a) Gross profit,
- (b) Net profit?

A man's turnover for the year ending October 31, 1908, is £12,500, his gross profit is £2,500, his net profit is £750.

What is the rate per cent. on the turnover for gross profit and also for net profit?

6. You supply Mr. Lloyd Asquith with goods of the value of £550, and he gives you in payment a Bill of Exchange due on January 1, 1909. On November 1, 1908, you discount the Bill at the rate of 5 per cent. per annum. How much cash will you receive? and give the entry that you will make in your Cash Book on this date.

Part II.

7. On February 1, 1909, Henry Wood commenced business with the following assets: Cash in hand, £50 1s. 6d.; Cash at Bank, £864 7s. 6d.; Stock-in-trade, £560. William Jones owes him £162 1s. 3d.; James Slater owes him £124 2s. 6d. His liabilities are: John Jackson, £400 2s. 9d.; A. Wilson, £103 15s.; Webster & Co., £156 15s.

The transactions for the month of February were as follows—

		£	s.	d.
Feb. 1.	Sold Goods to Wm. Jones	80	10	0
" 2.	Gave Bill to A. Wilson at 3 months in settlement of his account	101	0	0
" 3.	Paid John Jackson on account (by cheque)	100	0	0
" 4.	Drew from Bank for Petty Cash	10	0	0
" 5.	Cash sales	125	0	0
" 6.	Paid into Bank	150	0	0
" 9.	Bought of Webster & Co., Goods	250	0	0
" 11.	Received from Wm. Jones, Bill at 4 months, in full settlement of his account	236	0	0
" 12.	Bought Office Furniture and Fittings (by cheque)	50	0	0
" 13.	Henry Wood withdraws from Bank, for private purposes	180	0	0
" 13.	Paid out of Petty Cash, Stamps and Sundry Expenses	3	0	0
" 15.	Sold Goods to Jas. Slater	200	0	0
" 17.	Jas. Slater returns Goods as being inferior to sample	20	0	0
" 19.	Paid Webster & Co. by cheque £300, and received Discount, £7 10s.	307	10	0
" 23.	Paid John Jackson on account, by cheque, £100, and received Discount, £5.	105	0	0
" 28.	Received Rent from sub-tenant	6	0	0

		£	s.	d.
Feb. 28.	Drew cheque for Wages	60	0	0
	And paid £57.			
„ 28.	Rent due to Landlord	36	0	0
„ 28.	Credit Capital with Interest, £6 10s.			
„ 28.	Depreciate Office Furniture, £4.			

Enter the above items in the proper books, post to Ledger, and take out Trial Balance.

Part III.

8. From the foregoing, close the accounts, bring down the balances, make out Profit and Loss Account and Balance Sheet. On February 28 the Stock amounted to £484 10s.

LANCASHIRE AND CHESHIRE INSTITUTES.

SENIOR GRADE, 1909.

[3 hours allowed.]

(You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this grade.)

Part I.

9. What is the meaning of (a) forfeited shares, (b) premium on shares? How are they dealt with in a company's accounts?

10. Having before you the Profit and Loss Account of a manufacturing business, what points would require attention in adjusting it for the purpose of submission for Income Tax assessment?

11. What is a sinking fund? Give an example, with imaginary figures.

12. Define an "Account Current," and make out such an account for Alfred Brown in respect of the following transactions with Charles Dawson—

1908.

Jan. 17. Goods sold to Charles Dawson, £200, due February 1.

Feb. 1. Received cash from Charles Dawson, £50.

Mar. 18. Goods bought of Charles Dawson, £300, due April 1.

April 1. Paid to Charles Dawson, cash, £200.

May 1. Goods bought of Charles Dawson, £150.

„ 10. Goods sold to Charles Dawson, £120, due June 1.

The account to be made up to June 1, 1908, interest to be at 6 per cent. per annum, which may be calculated by months instead of days.

13. Explain, as applied to the Balance Sheet of a Joint Stock Company, the following—

- (a) Capital Authorized.
- (b) Calls in Arrear,
- (c) Mortgage Debentures,
- (d) Preliminary Expenses.

On which side of the Balance Sheet would they appear?

14. How should the figures be shown in a company's Balance Sheet in both the following cases—

(a) A company issues £40,000 4 per cent. Mortgage Debentures at 95 per cent.

(b) A company issues £40,000 4 per cent. Mortgage Debentures at par,

and undertakes to redeem them at the end of ten years at £105.

Part II.

15. The secretary of the Cheshire Manufacturing Company, Ltd., takes out his balances on December 31, 1908, and submits to you the following particulars, from which prepare Trading Account, Profit and Loss Account, and Balance Sheet—

Nominal Capital, £150,000, divided into 5,000 Preference Shares of £10 each, and 10,000 Ordinary Shares of £10 each.

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
5,000 Preference Shares, £10 each, •						
£2 paid				10,000	0	0
10,000 Ordinary Shares, £10 each,						
£5 called up				50,000	0	0
150 5 per cent. Mortgage Debentures of £100 each, issued at 95				15,000	0	0
Cost of issue of Debentures	750	0	0			
Purchases	43,249	0	0			
Land and Buildings	25,100	0	0			
Fuel	570	0	0			
Plant and Machinery	5,620	0	0			
Repairs	445	0	0			
Loose Tools, Jan. 1, 1908	1,752	0	0			
Office Expenses	363	0	0			
Sales				53,847	0	0
Wages	9,371	0	0			
Discounts received				324	0	0
Discounts allowed	517	0	0			
Salaries	975	0	0			
Bad Debts	275	0	0			
Postage, etc.	86	0	0			
Rates, Taxes, and Insurance	524	0	0			
Travelling Expenses	302	0	0			
Interest and Bank Charges	75	0	0			
Directors' Fees	550	0	0			
Stock, Jan. 1, 1908	11,420	0	0			
Sundry Debtors	24,300	0	0			
Sundry Creditors				9,160	0	0
Carriage inwards	220	0	0			
Goodwill	10,000	0	0			
Carriage outwards	410	0	0			
Debenture Interest paid	375	0	0			
Profit and Loss Account, balance of loss brought forward from last account	2,243	0	0			
Unpaid Calls, Ordinary Shares	250	0	0			
Bank Overdraft				1,525	0	0
Cash in hand	114	0	0			
	<u>£139,856</u>	<u>0</u>	<u>0</u>	<u>£139,856</u>	<u>0</u>	<u>0</u>

Reserve for Debenture Interest, £375.

Reserve for Wages, £50.

Provide for Bad Debts, £400; Insurance prepaid, £21.

Depreciate Land and Buildings 1 per cent., and Plant and Machinery 10 per cent.

Reserve for Discounts, 5 per cent. on Sundry Debtors and $2\frac{1}{2}$ per cent. on Sundry Creditors. Stock at December 31, 1908, £18,763.

Value of Loose Tools at December 31, 1908, £2,000.

Part III.

16. Arthur Arnott, Ben Barber, and Charles Corson carried on business in co-partnership as Corn Millers, at Salford. On October 1, 1907, their capital was £8,000, £5,000, and £2,000 respectively. By the deed of partnership each partner was to have 5 per cent. interest on his money, and a salary of £250 per annum. The only amount drawn out of the business by each partner during the year was the amount of his salary.

Before taking into account any interest on partners' capital, or partners' salaries, the profit of the business for the year ended September 30, 1908, was £2,070. Profits were divided in the proportion of 3, 2, 1, respectively.

Prepare Profit and Loss Account and open Partners' Capital Accounts, showing each partner's position on September 30, 1908.

LANCASHIRE AND CHESHIRE INSTITUTES.

JUNIOR GRADE, 1910.

[3 hours allowed.]

(You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this Grade.)

Part I.

1. What do you understand by an "Inward Invoice"? Into what book would it be entered and to which side of a personal account in the Ledger would the amount be posted? How would it be dealt with for easy reference?

2. What is the difference between "Bankers' Discount" and "True Discount"? You discount with your banker a Bill of Exchange at three months for £200, the bank rate being 4 per cent. What amount would your banker charge for discounting such Bill?

3. Who are the parties to a Bill of Exchange? Make out a Bill of Exchange, showing the amount of Stamp Duty, drawn by K. Hindley on J. Thompson for £312 9s. 6d., dated March 5, 1909, at 3 months' date. Show also the acceptance and endorsement of such Bill.

4. On January 1, 1910, John Mason supplies you with goods amounting to £200. His terms are 5 per cent. discount if you pay cash on January 31, or nett if you pay by a 6 months' Bill dated from January 1. Which method would you adopt in paying

Mason's account, assuming that on January 1, 1910, you had £400 in the Bank on which interest was being earned at 3 per cent. per annum? Give reasons for your answer.

5. Define the following terms—

- (a) Capital Expenditure.
- (b) Revenue Account.
- (c) Depreciation.
- (d) Mortgage.

6. In taking out the balances of your books you find that your book-keeper has made the following errors—

£25 paid for Office Furniture has been debited to "Trade Expenses Account."

Invoice for £23 for Goods purchased has not been passed through books, although the Goods are included in the stocktaking.

How would you rectify these errors?

Part II.

7. On December 1, 1909, the balances in Joseph Penn's books stood as follows: Cash in hand, £20 18s. 3d.; Cash at Bank, £123 4s. 2d.; Stock-in-trade, £517 8s.; Fixtures and Fittings, £82 3s. There is owing to him by L. Max, £35; by Williams & Son, £26 10s. 7d.; and by Kay & Co., £5 9s. He owes to H. Simpson, £408 10s., and to H. Taylor, £302 3s.

His transactions for the month were as follows—

		£	s.	d.	£	s.	d.
Dec	1.	Borrowed from W. Sykes on					
		Loan			100	0	0
"	2.	Bought Goods from H. Simpson					
		for Cash	23	12	8		
"	2.	And for Credit	55	6	2		
						78	18 10
"	4.	Paid into Bank			90	0	0
"	5.	Received Bill of Exchange at 6					
		months in payment of L.					
		Max's Account			35	0	0
"	6.	Sold to Williams & Son, Goods			87	10	0
"	6.	Sold Goods for Cash			12	0	0
"	8.	Paid H. Simpson on Account by					
		Cheque	200	0	0		
		And received Discount	10	0	0		
						210	0 0
"	9.	Received from Williams & Son					
		cheque on account, which was					
		paid into Bank same day	50	0	0		
		And allowed them Discount	2	10	0		
						52	10 0
"	10.	Received Credit Note from H.					
		Taylor for Goods returned			38	2	8
"	11.	Sold Goods to H. Taylor			100	1	6
"	12.	Drew Cheque for Petty Cash			10	0	0

		£	s.	d.
Dec. 13.	Bought Stamps out of Petty Cash		3	10 0
„ 15.	Bought of William Smith, Goods	93	1	6
„ 18.	Repaid W. Sykes by Cheque, being £50 part Repayment of Loan, and £1 Interest to December 31.		51	0 0
„ 21.	Received from Kay & Co. in Settlement of their Account		5	2 0
„ 22.	Received notice from Official Receiver that L. Max has been made Bankrupt and has no Assets.			
„ 23.	Paid Salaries out of Cash.		8	0 0
„ 28.	Paid Carriage out of Petty Cash		0	18 6
„ 31.	Railway Accounts <i>due</i> but not paid		5	8 0
„ 31.	Joseph Penn withdraws for private purposes		15	0 0
	Credit Capital with Interest : £2			
	Depreciate Fixtures and Fittings: £2 3s.			

Enter the above items in the proper books, post to Ledger, and take out Trial Balance.

Part III.

8. From the foregoing, close the accounts, bring down the balances, make out Profit and Loss Account and Balance Sheet. On December 31, 1909, the Stock amounted to £480 2s. 10d.

LANCASHIRE AND CHESHIRE INSTITUTES.

SENIOR GRADE, 1910.

[3 hours allowed.]

(You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this Grade.)

Part I.

9. What are the advantages of Double-entry Book-keeping over Single-entry, and how would you proceed to convert a single entry system into double entry?

10. The Coaley Colliery Co., Ltd., pay a Royalty to a Ground Landlord of 9d. per ton of coal raised, with a minimum of £1,200 per annum, with power to recoup short workings. In 1907 they raised 20,000 tons; in 1908, 30,000 tons; in 1909, 44,000 tons. How would you deal with these items year by year in the Profit and Loss Accounts and Balance Sheets of the Company?

11. What do you understand by a Balance Sheet? State the method and sources of its preparation. How does it differ from a Statement of Affairs?

12. In the accounts of a private individual, who owns his own premises, how would you deal with the following for Income Tax purposes—

- (a) His Salary, charged against profits.
- (b) Interest on Capital.
- (c) Life Insurance Premium for self and wife.
- (d) Annual value of Premises.

13. What do you understand by—

- (a) Secret Reserves.
- (b) Cost Accounts.
- (c) Accommodation Bills.

14. What do you understand by a "Deficiency Account"? Set out such an account, with imaginary figures.

Part II.

15. The following is a Trial Balance extracted from the books of the Ideal Newspaper Co., Ltd., on December 31, 1909, from which you are required to prepare Revenue Account and Balance Sheet: Nominal Capital, £100,000, divided into 40,000 Preference Shares of £1 each, and 60,000 Ordinary Shares of £1 each.

	Dr. £	Cr. £
Issued—40,000 Cumulative Preference Shares of £1 each, 7s. 6d. paid		15,000
Issued—60,000 Ordinary Shares of £1 each, 5s. called up		15,000
Calls in advance		150
Calls in arrear	75	
Freehold Property, January 1, 1909	28,000	
Plant and Machinery, January 1, 1909	9,500	
Sundry Creditors		7,300
Returns and unsold	2,650	
Reserve, January 1, 1909		10,000
Dividends accrued on Investments	300	
Cash in hand	130	
Liverpool Banking Co., Ltd.	5,295	
Sales (cash and credit)		22,650
Advertisements		19,090
Debtors	5,800	
Linotype Installation, January 1, 1909	1,300	
Linotype Installation, additions made on June 30, 1909		135
Additions to Plant and Machinery, made on June 30, 1909		980
Stock, January 1, 1909	1,750	
Investments at cost	6,340	
Profit and Loss Account, January 1, 1909		7,320
Motor-cars, Vans, etc., January 1, 1909	845	
Motor-cars, Vans, etc., additions made on June 30, 1909		90
Purchases of Paper	8,250	
Carried forward	£71,440	£96,510

	Dr. £	Cr. £
Brought forward	71,440	96,510
Purchases of Ink	475	
Salaries	9,230	
Wages	1,000	
Trade charges	7,860	
Correspondence	4,365	
Discounts allowed	855	
Commission	380	
Printing and Stationery	110	
Free copies	695	
Bad Debts	75	
Bank Interest, Dividends, etc.		130
Repairs	155	
	<u>£96,640</u>	<u>£96,640</u>

Reserve for Wages, £48; Discounts, £350; Bad Debts, £200. Depreciate Freehold Property at the rate of 1 per cent. per annum, Plant and Machinery, $7\frac{1}{2}$ per cent. per annum, Linotype Installation, 10 per cent. per annum, Motor-vans, 15 per cent. per annum.

The amount received for advertisements includes £180 for advertisements which will not run off until 1910. The sales include papers prepaid for 1910 amounting to £350. Stock-on-hand, December 31, 1909, £1,646 15s.

Part III.

16. L. Brier and C. Oke entered into partnership on January 1, 1905, L. Brier bringing in cash £8,000, C. Oke bringing in nothing. The partnership agreement stipulated that Brier was to receive 5 per cent. interest on his capital before dividing any profit, which was divisible three-fifths and two-fifths respectively. On December 31, 1909, they agreed upon a dissolution. A Balance Sheet was prepared at December 31, 1909, and stood as follows—

LIABILITIES.	£	ASSETS.	£
L. Brier, Capital Account	8,000	Book debts	14,000
J. Harrison, Loan Account	4,000	Stock-in-trade	5,700
Sundry Creditors	4,200	Machinery, etc.	2,400
Balance of P. & L. Account	£10,000	Drawings Account:	
Profit for the year 1909	2,500	L. Brier	5,350
		C. Oke	1,250
	<u>12,500</u>		
	<u>£28,700</u>		<u>£28,700</u>

L. Brier has not been credited with any interest since the commencement of the partnership. No interest on drawings or undistributed profits is to be taken into account. The Book Debts realized £13,600, the stock-in-trade £4,900, and the machinery £2,800. An amount of £500 was also received for goodwill, which had not appeared in the partnership books. Write up the necessary accounts to give effect to the above statements, assuming that all

liabilities are discharged and that the costs of realization, amounting to £300, are also paid by cash. Show the closing of the partners' Capital Accounts. The interest on L. Brier's capital is to be reckoned for each year on the original figure of £8,000, and no interest on interest need be taken into account.

LANCASHIRE AND CHESHIRE INSTITUTES.

JUNIOR GRADE, 1911.

[3 hours allowed.]

(You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this grade.)

Part I.

1. What do you understand by: (a) Lien, (b) Insolvent, (c) E. and O.E.?
2. Explain the meaning and effect of the words "not negotiable" when written across a cheque.
3. On January 1, 1911, A. Marston, Manchester, sells the following goods to M. Archer, Leeds—
 - 2 cwt. best Sugar at £12 per ton, subject to a Trade Discount of 10 per cent.
 - 1½ cwt. Butter at £5 per cwt., subject to a Trade Discount of 20 per cent.
 - 2 gross Eggs at 9d. per doz., subject to a Trade Discount of 33½ per cent.
 - 5 cwt. Bacon at £6 10s. per cwt., subject to a Trade Discount of 25 per cent.
 Terms, 2½ per cent. monthly.
 Make out Invoice.
4. On February 1, 1911, Messrs. Rhodes & Co., Stockport, drew a Bill of Exchange upon John Ellis, of Liverpool, for £325 at four months' date, which was duly accepted payable at the Manchester and County Bank, Liverpool; after acceptance the Bill was endorsed to Albert Blackston, Preston. Draw the Bill of Exchange showing Acceptance, Endorsement, and Stamp Duty.
5. Referring to the previous question, supposing the Bill at due date was returned dishonoured, and the endorsee arranges with the acceptor to accept a new Bill of Exchange dated the due date of the one dishonoured at four months plus interest at 5 per cent. per annum for the period and 2s. 6d. expenses.
 Make the Journal entries in the books of the acceptor.
6. What is a Trial Balance and what are its uses?

Part II.

7. On January 1, 1911, L. Huntley commenced business with assets: Cash in hand, £32 18s. 9d.; Cash at Bank, £133 16s. 1d.; Goods on hand, £412 8s.; M. Saunders, £38 10s.; F. Hartley, £53 18s.; S. Fearnley, £86 12s. 8d.; and Horses and Carts, £53. Liabilities: A Knowles, £219 11s. 6d.; and W. Close, £291 12s. His transactions for the month were as follows—

		£	s.	d.	£	s.	d.
Jan. 1.	Bought Goods for cash				25	10	0
- ,, 2.	Received from M. Saunders cheque for his account and allowed him 5 per cent. Discount.						
,, 4.	Sold Goods to S. Fearnley for cash On credit	12	19	3			
		53	1	8			
					66	0	11
,, 5.	Accepted A. Knowles' Bill of Exchange at 4 months				219	11	6
,, 6.	Received from S. Fearnley cheque and paid same into Bank . . .	82	0	0			
	And allowed him Discount . . .	4	12	8			
					86	12	8
,, 8.	Sent Credit Note to F. Hartley for Goods damaged				9	7	6
,, 9.	Sold Goods to M. Saunders . . .				43	18	0
,, 10.	Bought Goods from W. Close . .				18	3	5
,, 11.	Sent cheque to W. Close	142	10	0			
	And he allowed me Discount . .	7	10	0			
					150	0	0
,, 12.	Bought a new Horse and paid for same by cheque				21	0	0
,, 13.	Paid Wages by Cash				10	5	0
,, 15.	Received cheque on account from M. Saunders				20	0	0
,, 18.	Paid into Bank				35	0	0
,, 20.	Returned Goods to W. Close, not up to sample				58	10	0
,, 22.	Paid Cash for carriage				7	10	6
,, 23.	M. Saunders failed and paid a composition of 6s. 8d. in the £ into our Banking Account.						
,, 28.	L. Huntley pays his private ac- counts by cheque				15	0	0
,, 31.	Depreciate Horses and Carts . .	2	8	0			
,, 31.	Credit capital with interest . .	1	10	0			
,, 31.	Gas and Water Account due . .	9	11	6			

Enter the above items in the proper books, post to Ledger and take out Trial Balance.

Part III.

8. From the foregoing, close the accounts, bring down the balances, make out Profit and Loss Account and Balance Sheet. On January 31, 1911, the Stock amounted to £355 5s. 4d.

LANCASHIRE AND CHESHIRE INSTITUTES.

SENIOR GRADE, 1911.

[3 hours allowed.]

(You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this grade.)

Part I.

9. The following is the Profit and Loss Account of John Aines, for the year ended March 31, 1911, he having started business on April 1, 1910.

	£	s.	d.		£	s.	d.
To Stock, April 1,				By Sales	8,000	0	0
1910 . . .	2,123	0	0	„ Stock, March			
„ Purchases . .	5,896	0	0	31, 1911 . . .	1,548	0	0
„ Trade expenses	748	1	8				
„ John Aines,							
salary . . .	150	0	0				
„ Life Insurance	93	0	0				
„ Schedule "A"							
tax . . .	7	0	0				
„ Mortgage inter-							
est £70, less							
tax, £4 1s. 8d.	65	18	4				
„ Depreciation 10							
per cent. per							
annum . . .	212	0	0				
„ Interest on							
Capital . . .	103	0	0				
„ Net profit for							
the year . . .	150	0	0				
	<u>£9,548</u>	<u>0</u>	<u>0</u>		<u>£9,548</u>	<u>0</u>	<u>0</u>

Make out summary for Income Tax purposes, showing the tax payable, assuming that the surveyor has agreed to assess on the one year's profits. The business premises belong to John Aines, and are assessed under Schedule "A" at £120. The allowance for wear and tear is 5 per cent.

10. What do you understand by—

- (a) Floating Capital.
- (b) Fixed Capital.
- (c) Gilt-edged Securities.

11. On December 31, 1910, your Cash Book shows that you have in Bank the sum of £1,200. On checking your Cash Book with the Bank Pass Book you find that cheques drawn amounting to £212 have not passed through the Bank, and also that the Bank have not credited you with a sum of £108 cheques paid in on December 31, 1910. On the same date the Pass Book shows that the Bank have credited you with interest, less charges, £24, which you have not passed through your Cash Book. Draw up a Reconciliation Account showing adjustments between your Bank Pass Book and Cash Book.

12. Explain the difference between—

- (a) Debenture Stock.
- (b) Debentures to Bearer.
- (c) Debentures to Registered Holder.

13. What do you understand by the "Double Account System" and in what way does it differ from the "Single Account System?"

14. On December 31, 1910, John Allison and Albert Baker, trading as Allison & Baker, Cotton Spinners, before taking out their Balance Sheet for the year, decide to have a re-valuation made of certain mill premises which form part of the assets of the business. On the re-valuation being made it is found that the property is worth £10,000 more than is shown in the books. It is their desire that the true value shall be shown on their Balance Sheet. How would you give effect to this in the books of the business?

Part II.

15. The following is a Trial Balance extracted from the books of of the Pleasant Hotel Co., Ltd., on December 31, 1910, from which you are required to prepare Revenue Account and Balance Sheet.

Nominal Capital, £25,000, divided into 10,000 5 per cent. Cumulative Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each, and 5,000 Deferred Ordinary Shares of £1 each.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Issued—8,500 5 per cent. Cumulative Preference Shares fully paid				8,500	0	0
9,000 Ordinary Shares fully paid				9,000	0	0
5,000 Deferred Ordinary Shares issued to vendors as fully paid				5,000	0	0
Purchases—Beer, Wine and Spirits, etc.	5,450	0	0			
Provisions	4,580	0	0			
Wages and Salaries	5,230	0	0			
Rates, Taxes, Insurance, Licences, etc.	1,890	0	0			
Laundry	313	0	0			
Taking—Beer, Wines, Spirits, etc.				7,862	0	0
Sales of Food				6,263	0	0
Coals	129	0	0			
Carriage and Porterage	236	0	0			
Sundry Trade Expenses	584	0	0			
Advertising	471	0	0			
Repairs	208	0	0			
Apartments				8,191	0	0
Billiards				212	0	0
Sundry receipts				159	0	0
Discounts received				390	0	0
Transfer fees				6	0	0
Freehold Land and Buildings	35,000	0	0			
Furniture and Fittings	3,671	0	0			
Stock on hand, January 1, 1910—						
Beer, Wines, Spirits, etc.	2,128	0	0			
Provisions	320	0	0			
Cash in hand	123	12	11			
Parrs Bank, Ltd.				2,212	0	0
Preliminary expenses of formation of Company	864	0	0			
200 4½ per cent. 1st Mortgage Debentures of £100 each				20,000	0	0
Debenture Interest paid less tax to October 31, 1910	706	5	0			
Profit and Loss Account, January 1, 1910				1,510	0	0
Sundry Creditors				4,980	0	0
Investments	5,069	0	0			
Goodwill at cost to Company	10,000	0	0			
Interim Dividend on Preference Shares, half-year to June 30, 1910	200	2	1			
Reserve Fund				5,000	0	0
Debtors for apartments not yet entered	152	0	0	152	0	0
Additions to freehold	2,112	0	0			
	£79,437	0	0	£79,437	0	0

Reserve for Debenture Interest, less tax at 1s. 2d. in the £; Wages and Salaries, £128. Stock, December 31, 1910: Beer, Wines, Spirits, etc., £2,520; Provisions, £164.

Depreciate Furniture and Fittings 5 per cent. for the year, Land and Buildings nil.

Also make out Profit and Loss Appropriation Account assuming that after the Ordinary shareholders are allowed 10 per cent. free of tax, it is suggested the Deferred Ordinary shareholders are to be paid a dividend of 10 per cent. free of tax, and the balance carried forward to next year.

Part III.

(This exercise must be worked on page 3 of the working form.)

16. W. Lone and T. Stanley are trading as partners in the firm of Lone, Stanley & Co., profits being shared as follows—

W. Lone, two-thirds; and T. Stanley, one-third. The following is the Balance Sheet of Lone, Stanley & Co., as at December 31, 1908—

LIABILITIES.			ASSETS.		
	£	s. d.		£	s. d.
W. Lone, Capital Account . . .	2,000	0 0	Cash . . .	200	0 0
T. Stanley, Capital Account . .	1,800	0 0	Sundry Assets .	27,600	0 0
Sundry Creditors	24,000	0 0			
	<u>£27,800</u>	<u>0 0</u>		<u>£27,800</u>	<u>0 0</u>

On January 1, 1909, they admit M. Maxwell as a partner on the following terms—

- (a) Profits are to be divided as to three-sixths to W. Lone, two-sixths to T. Stanley, and one-sixth to M. Maxwell.
- (b) M. Maxwell to bring in £1,000 as his Capital.
- (c) A Goodwill Account is to be raised for £1,800, this sum to be credited to the old partners.
- (d) W. Lone is at liberty to withdraw £400 of his Capital on January 1, 1909.
- (e) M. Maxwell to have a salary of £400 per annum out of profits.
- (f) Interest to be allowed on partners' Capital Accounts at the rate of 5 per cent. per annum. No interest on ordinary drawings to be taken into account. Each partner is at liberty to draw £40 a month in anticipation of profits (in the case of M. Maxwell the £40 is in anticipation of profits and salary).

Assume that all transactions mentioned above have been carried out. The profits for the year ended December 31, 1909, before making any allowance for M. Maxwell's salary or for interest on partners' Capital amounted to £2,510.

Show the partners' Capital Accounts at December 31, 1909.

MIDLAND COUNTIES UNION OF EDUCATIONAL
INSTITUTIONS, 1909.

ELEMENTARY.

Part I. Compulsory.

On June 1, 1908, the books of Mr. John Brown showed the following balances—

Dr., Cash at Bank £350 12s. 6d., Cash in hand £10 14s. 3d., Stock in Trade £1,003 14s. 8d., Machinery and Plant £250 18s. 9d., Furniture and Fittings £120 12s. 6d., R. Jevons £93 16s. 2d., P. Thomas £140 17s. 9d.

Crs., S. Tailby £125 16s. 7d., R. Adams £202 10s., Capital £1,643.

His transactions for the month were as follows—

		£	s.	d.	£	s.	d.
June 1.	Bought of S. Tailby, 8 tons of iron, at £6 1s. 3d. per ton .				48	10	0
" 2.	Paid by cheque, S. Tailby .	122	14	0			
	Discount	3	2	7			
		<hr/>			125	16	7
" 4.	Sold S. Tonks 3 Rolls of Zinc at 25s.				3	15	0
" 6.	Sold P. Thomas 10 tons Rails, at £14				140	0	0
" 9.	Received by cheque account, R. Jevons	91	10	0			
	Discount	2	6	2			
		<hr/>			93	16	2
" 10.	Bought of S. Tailby 150 tons of Scrap Iron, £4 10s. per ton .				675	0	0
" 11.	Sold for Cash 70 tons Castings, £6 15s. per ton				472	10	0
" 11.	Paid into Bank				564	0	0
" 12.	John Brown paid Private Account, W. Gregg, by cheque .				15	10	0
" 14.	Received Account, P. Thomas, Cash	132	0	0			
	Discount	3	17	9			
	Allowance for Defective Goods .	5	0	0			
		<hr/>			140	17	9
" 15.	Bought of R. Adams, 80 tons Pig Iron, £10 per ton				800	0	0
" 16.	Paid by Cash, carriage on Pig Iron from Adams				5	6	8
" 19.	Paid into Bank				132	0	0
" 19.	Paid by cheque, Account R. Adams	197	8	9			
	Discount	5	1	3			
		<hr/>			202	10	0
" 21.	Sold to R. Jevons 70 tons Rails at £14 10s. per ton				1,015	0	0
" 24.	Paid Rent of Yard by cheque .				10	15	0
" 26.	Received cheque, P. Thomas, and paid into Bank	133	0	0			
	Prompt Cash Discount	7	0	0			
		<hr/>			140	0	0

		£	s.	d.
June 28.	Drew cheque for Office use .	40	0	0
„ 28.	Paid by cash: Wages, £18 10s.; Trade Expenses, £5; Carriage, £6; J. Brown, Private Account, £15.			
„ 30.	Stock in hand	1,142	16	8

From the foregoing particulars, post the necessary accounts, and prepare Profit and Loss Account and Balance Sheet at June 30, 1908.

Part II.

(Four questions only are to be attempted. Answers are to be given briefly.)

1. What is meant by the terms E. and O.E., B/L, Deed of Assignment and Consignee?
2. L. Brown paid T. Jones £40 2s. 6d. by cheque. Give the form of cheque.
3. What is the difference between Invoice and Statement of Account? Give a form of the latter.
4. What is meant by pro forma Invoice, and under what circumstances is it generally used?
5. What is a Debit Note, and in what does it differ from an Invoice?
6. What is the chief advantage in keeping a Purchase Day-Book and a Sales Day-Book instead of Journalizing all Purchases and Sales?

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS, 1909.

INTERMEDIATE.

Part I. Compulsory.

W. Smith is a Manchester Warehouseman. On September 30, 1908, his position was as follows—

Assets. Cash Balance, £10 14s. 3d.; Cash at Bankers, £2,003 16s. 7d.; Bills Receivable, £650 10s. 4d.; Horses and Carts, £540 17s. 6d.; Furniture, Fittings, and Fixtures, £370 19s. 6d.
Stock—

Heavy Goods Department (Wool and Linens), £3,006 18s. 9d.
Fancy Goods Department (Silks, Velvets, etc.) £1,510 17s. 6d.
L. Stevens, £750 18s. 9d.; P. Tonks, £270 13s. 4d.; Balance due from Estate of Turner & Co., Original Debt, £350 17s. 2d., one half of which has already been written off to Bad Debt Account.

Liabilities. Dreyfus & Co., £970 17s. 9d.; Rylands & Son, £1,189 16s. 4d.; Loan Account, Mrs. J. Smith, £3,000 (bearing interest at the rate of 5 per cent. per annum); Bills payable, £240 16s. 6d.; Capital, £3,890 4s. 6d.

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		£	s.	d.	£	s.	d.
Oct.	1.	Repaid Mrs. J. Smith part of Loan Account by cheque . . .			1,000	0	0
"	2.	Bills Receivable (Thompson & Co.) Paid into Bank for collection . . .			370	14	6
"	4.	Sold to L. Stephens, Linen Goods . . .			273	16	3
"	4.	Sold to L. Stephens, Velvet Goods . . .			75	9	8
"	5.	Thompson & Co. being unable to meet the whole of their Bill due this day (£370 14s. 6d.), renewed part; giving cheque for £150 to enable them to take up their Bill, and receiving fresh Bill for £150 15s. at 1 month. (Interest and Expenses, 15s.)					
"	6.	Cash Sales, Heavy Dept. . .	170	18	9		
"	6.	Cash Sales, Fancy Dept. . .	210	15	6		
"		Paid into Bank . . .			331	14	3
"	8.	Contracted with Dreyfus & Co. for 1,200 boxes of Velvet at £2 per box, to be delivered by them 100 boxes per month.					
"	10.	Received of L. Stephens, cheque	350	0	0		
"	10.	Bill at 2 months . . .	382	3	9		
"	10.	Discount . . .	18	15	0		
		Paid into Bank . . .			750	18	9
					350	0	0
"	13.	Cash Sales, Heavy Dept. . .	210	17	6		
"	13.	Cash Sales, Fancy Dept. . .	275	14	3		
"		Paid into Bank . . .			486	11	9
"	17.	Bills payable due this day paid by Bank . . .			240	16	6
"	18.	Paid Rylands & Co. by cheque	1,165	18	10		
"		Discount . . .	23	17	6		
					1,189	13	4
"	19.	Received first delivery of Velvet from Dreyfus & Co. 100 boxes.					
"	20.	Discounted Stevens' Bill with our Bank . . .	382	3	9		
"		Discounting . . .	1	12	0		
"	23.	Received first and final Dividend of 5s. in the £ from the Trustee of Turner & Co.'s Estate . . .			87	14	4
"		Paid into Bank . . .			87	14	4
"	29.	Cash Sales, Heavy Dept. . .	315	6	8		
"	29.	Cash Sales, Fancy Dept. . .	427	0	6		
		Paid into Bank . . .			742	7	2
					742	7	2
"	29.	Drew cheque for Office use . .			150	0	0
"	29.	Paid Wages . . .			33	16	8
"	29.	Paid Carriage Account . . .			22	6	9

		£	s.	d.	£	s.	d.
Oct. 29.	Paid Horse Keep and Carriage.				12	18	3
" 29.	Paid W. Smith Private Account				27	10	0
" 29.	Paid Credit Loan Account, Mrs. J. Smith, with 1 month interest.						
	Stock. Heavy Dept.	.	.	2,206	16	6	
	Stock. Fancy Dept.	.	.	928	16	6	

Draw out the Profit and Loss Account and Balance Sheet.

Part II.

(Five questions only are to be attempted. Answers are to be given briefly.)

1. Give ruling of Bills Receivable Book and one specimen entry.
2. What is meant by Contra Account, and how should the same be kept?
3. What is meant by renewing a Bill? How should you treat the following transaction: W. Jones renews T. Brown's Acceptance, £50?
 - (a) When W. Jones retains possession of Bill.
 - (b) When W. Jones has discounted the Bill with his Bankers.
4. What is meant by Consignee, Lien, Demurrage, Owner's Risk?
5. Explain the terms F.O.B., Bill of Lading, C.I.F., Certificate of Origin.
6. What items are proper to a Trading Account, and what class of items should be included in a P. and L. Account?
7. What is meant by Endorsing a Cheque, and what signatures would Smith & Co.'s Bankers require upon a Cheque in the following transaction?—
W. Brown pays Smith & Co.'s Account, £30, by cheque of W. Tonkins, drawn in favour of R. Harris.

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS, 1909.

ADVANCED.

Part I. Compulsory.

G. Sykes and R. Simpson trade as the Simplex Manufacturing Co. The following was the Trial Balance of their books for the twelve months ending December 31, 1908. Prepare Trading Account, Profit and Loss Account, and Balance Sheet.

Make the following Provisions and Reserves. Profits or Losses to be shared equally. Interest at 5 per cent. on Partners' Capital Accounts, ignoring Drawings. Transfer £75 from Purchases Account, and £115 from Wages Account to Additions to Plant; Depreciate Plant Account 5 per cent. off balance and 25 per cent. off additions; Depreciate Furniture and Fittings Account 5 per cent.; add to Leasehold Premises Redemption Account $2\frac{1}{2}$ per cent. Interest on balance and Annual Instalment of £37 10s.; Reserve for Bad and Doubtful Debts 5 per cent. on Debtors.

Before dividing profits, J. Smith, the Works Manager, is to receive a Bonus on the net profits of 2 per cent. up to £2,500, and $1\frac{1}{2}$ per cent. on any profits over that amount.

EXAMINATION PAPERS

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TRIAL BALANCE, *December 31, 1908.*

	<i>Dr.</i>		<i>Cr.</i>	
	£	s. d.	£	s. d.
G. Sykes, Capital Account, Jan. 1, 1908			8,500	0 0
G. Sykes, Drawings Account	1,000	0 0		
R. Simpson, Capital Account, Jan. 1, 1908			6,444	1 0
R. Simpson, Drawings Account	750	0 0		
Leasehold premises	3,270	10 6		
Leasehold premises, Redemption Account			675	0 0
Plant, Machinery and Tools, Jan. 1, 1908	6,012	11 8		
Plant, Machinery and Tools, Additions during the year	252	17 4		
Furniture, Fittings and Fixtures	873	14 6		
Cash Account	35	17 2		
Lloyds Bank, Ltd., Current Account	1,014	16 7		
Bills Receivable Account	1,173	16 2		
Bills Payable Account			4,573	19 10
Sales			38,350	2 6
Purchases	22,753	14 8		
Wages Account, Producers	7,642	12 9		
Wages Account, Non-producers	1,013	10 6		
Discounts received and allowed	1,975	14 6	1,162	8 10
Carriage and Freight	457	16 9		
Sundry Trade Expenses	282	12 8		
Ground Rent, Rates and Taxes	472	16 9		
Coal, Gas and Water, Works Account	522	19 7		
Coal, Gas and Water, Office Account	89	17 1		
Bank Charges	54	13 9		
Creditors			5,003	16 2
Debtors	9,872	12 6		
Bad Debt Account			152	12 9
Repairs to Plant	63	18 10		
Stock Account, Jan. 1, 1908	5,274	16 10		
	<u>£64,862</u>	<u>1 1</u>	<u>64,862</u>	<u>1 1</u>

Stock, Dec. 31, 1908, £6,378 12s. 6d.

Part II.

(Five questions only are to be attempted. Answers are to be given briefly.)

1. What are the rights and privileges of the holders of : Mortgage Debentures, Cumulative Preference Shares, Deferred Shares?

2. T. Brown purchased a secondhand Lathe for £25, which he used for some time ; but subsequently purchased a more modern Lathe from Messrs. Sagar & Co., for £65, they agreeing to take the old Lathe in exchange in part payment ; allowing for same £35. Show these entries in T. Brown's Accounts.

3. How should a manufacturer arrange his Trading Account having regard to the checking of his Costs Accounts?

4. Messrs. Thompson & Co. of Canada, instruct P. Brown, of London, to draw upon them at sight in payment of Account £57 10s. Give the form of the Bill, and describe how P. Brown would proceed to collect the same.

5. Explain the meaning of Receiver, Liquidator, Trustee, Deed of Assignment.

6. A firm keep five Sales Ledgers. What rulings would be necessary in the Cash Books, Sales Day Books, and Returns Book to enable them to have each Ledger separately balanced, and what items would need journalizing to enable this to be systematically carried out?

7. The Reserve Fund of a Limited Company is invested in Consols, the market price of which varies from time to time; how would these fluctuations be dealt with in preparing their Balance Sheets?

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS, 1910.

ELEMENTARY.

Part I. Compulsory.

Mr. F. Connor's books disclosed the following Assets and Liabilities on June 30, 1909—

	£	s.	d.	£	s.	d.
Cash in hand	74	9	6			
Cash at London and City Bank:	477	19	2			
C. Porter, debtor	35	9	4			
H. Willis, debtor	24	17	2			
C. W. Harrison, debtor	10	17	3			
Stock on hand	500	6	0			
J. Berry				54	17	2
P. White				21	18	0
R. Spencer				14	15	7
Hy. Smithson				64	9	6
Capital				967	18	2
	<u>£1,123</u>	<u>18</u>	<u>5</u>	<u>£1,123</u>	<u>18</u>	<u>5</u>

Open the books by a Journal entry, enter up and post the following, after which make out a Trial Balance, a Profit and Loss Account, and a Balance Sheet, as at July 31, 1909.

NOTE.—Candidates may (a) write up and Balance the Cash Book, and journalize the remaining transactions or (b) journalize all the transactions. Additional marks will be given for writing up and balancing the Cash Book.

		£	s.	d.
1909.				
July 1.	Paid cheque to J. Berry in settlement of his account	53	10	0
" 3.	Sold Goods to D. Kemp	67	14	0
" 3.	Received Cash from H. Willis	23	18	6
" 3.	Allowed Discount	0	18	8
" 5.	Paid H. Smithson cheque	62	17	3
" 5.	Discount	1	12	6
" 7.	Sent C. Porter Credit Note for Goods soiled	1	18	3
" 10.	Purchased from R. Spencer, Goods	43	19	7

1909.		£	s.	d.
July 11.	Paid cheque to R. Spencer	14	8	0
" 11.	Was allowed Discount	0	7	7
" 13.	Lent to C. Scotson, cheque	25	0	0
" 14.	C. Porter, paid on account	20	0	0
" 17.	C. W. Harrison, paid in settlement	10	10	0
" 18.	Sold to H. Willis, Goods	38	19	5
" 20.	Paid Rent	25	0	0
" 21.	C. Porter, bought Goods	43	17	0
" 22.	Cash received from D. Kemp	50	0	0
" 22.	Paid into London and City Bank	120	0	0
" 23.	Received cash from C. Porter	13	10	10
" 27.	Sent cheque to R. Spencer	41	15	7
" 27.	Discount	2	4	0
" 30.	Sales for Cash for the month	47	10	0
" 31.	Sundry Trade Expenses (cash)	7	16	0
" 31.	Wages paid for the month (cash)	25	0	0
" 31.	Stocks of Goods on hand	413	10	0

Part II.

(Four questions only are to be attempted. Answers are to be given briefly.)

1. Give the meanings of the following: $\frac{1}{100}$, $\frac{1}{1000}$, I.O.U., folio, consign.
2. What stamp is required on an I.O.U.?
3. Write out a receipt for £3 14s. 7d. as if F. Connor received it from C. Sharpe on December 30, 1909.
4. It is proposed to charge C. Scotson £1 5s. for interest on the loan made July 13, in Part I. Show the entry you would make to charge him.
5. What is a Balance Sheet?
6. What do you understand by a "crossed cheque"?

MIDLAND COUNTIES UNION OF EDUCATIONAL
INSTITUTIONS, 1910.

INTERMEDIATE.

Part I. Compulsory.

Charles Peters & Co., Oil Merchants, on March 31, 1909, found their balances as follows—

	£	s.	d.
Cash in hand	27	14	0
Cash at London, County and Westminster Bank, Ltd.	275	5	6
Fixtures and Fittings, valued at	58	0	0
Property, valued at	1,550	0	0
Walker & Co., debtors	95	17	0
A. McDonald, debtor	29	19	7
A. Parkinson, debtor	14	17	7
H. Byers, creditor	89	5	6
D. Lyons, creditor	77	4	8
Bills receivable (Nos. 33/35)	342	16	0
Bills payable (Nos. 89/93)	395	10	0
Stock of Oils	675	15	0
Stock of Bottles and Drums	38	7	0
C. Peters, Capital	1,697	14	4
H. Peters, Capital	848	17	2

		£	s.	d.
1909.				
April 1.	Discounted at Bank, B/R No. 34, £100 proceeds.	98	10	0
" 2.	Sold Linseed Oil to H. Brooks	59	14	0
" 3.	Sold portion of property consisting of 3 houses valued in account at £770, and received cash which was paid into Bank	900	0	0
" 4.	Paid half legal expenses on sale of property as agreed (cash)	10	0	0
" 5.	B. Whittaker bought Sperm Oil, charged him	37	5	0
" 5.	Bank Retired Firm's Bill, No. 89	120	10	0
" 6.	Received from A. Parkinson	14	17	7
" 8.	Purchased Petroleum from R. Conway . .	140	0	0
" 9.	Accepted R. Conway's draft at 2 m/d less 2½ per cent. in payment of above . . .	136	10	0
" 10.	McDonald asked for his acceptance to be renewed—No. 35, £96, which would become due on the 17th inst.; Returned No. 35 and received new acceptance No. 36 at 3 m/d with interest added . .	97	5	0
" 13.	Sold to A. Parkinson, Colza Oil	54	16	6
" 14.	Paid D. Lyons, cheque	75	6	0
" 14.	Discount	1	18	8
" 15.	Received of Walker & Co. . . .	45	17	0
" 15.	Received of Walker & Co. Acceptance 2 m/s	50	0	0
" 16.	Sold Walker & Co., Engine Oil	135	14	0
" 17.	Received payment of Bill No. 33 before maturity	145	11	7
" 17.	Discount allowed	1	4	5
" 17.	Paid into Bank	250	0	0
" 19.	Bank returned Walker & Co.'s cheque unpaid	45	17	0
" 21.	Purchased Bottles and Drums, cheque . .	14	18	0
" 24.	The firm's acceptance No. 90 paid by Bank . .	81	0	0
" 26.	Paid for general repairs, cheque	5	17	0
" 28.	Received cash from Walker & Co. . . .	30	0	0
" 31.	Sundry Cash Sales for the month	128	16	0
" 31.	Paid Wages, cash	42	0	0
" 31.	Paid sundry general expenses, cash . . .	14	7	6
" 31.	Stock of Oils	539	10	0
" 31.	Stock of Drums and Bottles	21	15	0

After crediting the partners with interest at the rate of 5 per cent. per annum on their capital, divide the profit in proportion to the amount of capital held by each. Prepare a Trial Balance, Profit and Loss Account, and Balance Sheet.

Part II.

(Four questions only are to be attempted. Answers are to be given briefly.)

1. What do you understand by Tare, ad valorem, voucher?
2. Explain the difference between Bullion and Specie.
3. What is Legal Tender in this country?

4. State the amount of Stamp Duty necessary on B/E for the following: £20 at 3 m/d, £57 at 1 m/d, £140 on demand, £101 at 14 d/d.

5. Explain the terms Barratry and Jettison.

6. Make out a Promissory Note for £39 16s. as from THOS. Hawke in favour of Harry Moss, dated June 30, 1909, for 3 m/d, and state when it will be (a) nominally, (b) actually due.

MIDLAND COUNTIES UNION OF EDUCATIONAL
INSTITUTIONS, 1910.

ADVANCED.

Part I. Compulsory.

The Highburn Manufacturing Co., Ltd., with a Nominal Capital of 40,000 Ordinary Shares of £1 each, and by the Memorandum and Articles of Association have power to issue 200 Debentures of £50 each bearing interest at $4\frac{1}{2}$ per cent. p.a.

On June 30, 1909, the Ledger Balances were abstracted as follows—

	£
Share Capital (issued 40,000 shares at £1 each, 15s. called on each)	30,000
Calls in arrear	205
Debentures issued, 100 at £50	5,000
Stock (July 1, 1908)	6,537
Purchases	22,448
Returns to creditors	1,745
Sales	46,728
Returns from customers	1,174
General Trade expenses	1,014
Wages	13,632
Salaries	2,042
Travelling expenses	758
Advertising	870
Rents, Rates, Taxes and Insurance	858
Discount Debtor Balance	314
Bank Interest and Commission Debtor	114
Bad Debts written off	249
Premises	12,450
Machinery and Plant	18,750
Fixtures and Fittings	3,750
Sundry Debtors	12,160
Sundry Creditors	7,728
Interest Paid on Debentures	214
Dividend Paid (in August 1908)	1,415
Reserve Fund	5,000
Reserve for Bad Debts (Balance at July 1, 1908)	760
Cash in hand	43
Balance at Bank Cr.	1,427
Balance of P. and L. Account (July 1, 1908)	3,463
The Stock on hand on June 30, 1909 = £6,900.	

Draw up a Trading and Profit and Loss Account, after making the following adjustments—

- (a) Depreciate the Machinery and Plant by 10 per cent., the Fixtures and Fittings by 10 per cent.
- (b) Make up the Reserve for Bad Debts to $7\frac{1}{2}$ per cent. of the Book Debts.
- (c) Insurances are paid in advance to the extent of £96.
- (d) Make out a Balance Sheet as at June 30, 1909.

Part II.

(Five questions only are to be attempted, but No. 6 must be tried. Answers are to be given briefly.)

1. Explain: Agio, Allonge, General Average, York-Antwerp Rules.

2. Why are foreign B/E made out in sets? Are they always made out so? Write out a Second of Exchange, drawn by Chas. Carr, of London, on Kishen Lall, of Baroda, 60 D/S for £175, and convert into Rupees at ls. 4d.

3. Name some preferential debts allowed to be paid before distribution of the estate of a bankrupt.

4. What are Exchequer Bills?

5. In the case of the death of a Shareholder what would you require before paying any dividends on account of the holding?

6. Draw up a return for Income Tax assessment from your result of Part I, assuming that the assessments in the two previous years were: 1907, £2,100, and 1908, £1,760, respectively. The following are included in the charges: £35, chief rent in rents, rates, etc.; gifts to the value of £50 in the general expenses; and the Assessor will only allow depreciation on the machinery at the rate of $7\frac{1}{2}$ per cent.; Income Tax paid and included with rents, rates, etc., account, £88. Show what the assessment will be for 1909.

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS.

ELEMENTARY, 1911.

[3 hours allowed.]

Part I. Compulsory.

On May 31, 1910, the balances in the books of Mr. Hy. James were as follows—

Cash in hand £22 5s., balance of Cunliffe's Bank £335 14s., stock of goods on hand £477 17s., accounts owing to him, C. Regan £18 9s. 2d., K. Snelling £13 17s. 4d., and H. Watson £22 9s. 9d. His liabilities were: A. Clarke £73 14s., J. Spark £35s. 5s. 5d., and T. Andrews £39 10s.; the balance being his capital.

His transactions for the month of June were—

1910.		£	s.	d.
June	1. Bought goods from F. Hamer	77	5	0
"	2. Paid cheque to T. Andrews	38	10	3
	Discount deducted, $2\frac{1}{2}$ per cent. . . .		0	9
"	3. Sold goods to S. Dyson	45	0	0
"	5. Paid carriage account, cash	1	14	8

1910.		£	s.	d.
June 6.	Received cash from C. Regan, allowing balance as discount	18	0	0
„ 8.	Received cheque from H. Watson	22	9	9
„ 8.	Sold to H. Watson goods valued	48	7	7
„ 11.	Sent credit note to H. Watson for returns	2	4	6
„ 12.	Sold goods for cash to G. Bell	14	18	0
„ 12.	Bank charged for cheque book	0	8	4
„ 13.	Purchased goods from S. Barratt	54	18	0
„ 15.	Sold goods to T. Andrews	69	9	0
„ 16.	Sold goods to E. Evans	23	9	6
„ 18.	K. Snelling paid cash on account	8	0	0
„ 20.	Paid cheque to J. Spark in settlement	33	10	0
„ 23.	Received credit note from S. Barratt for damaged goods	4	17	0
„ 25.	S. Dyson paid his account of £45 by cheque (less 3 per cent. discount)			
„ 27.	Paid into Bank	30	0	0
„ 29.	Paid for stationery, etc., cash	4	15	7
„ 29.	Paid wages by cheque drawn on bank	26	10	0
„ 30.	Bank debited Hy. James' account with commission and postages	1	11	5
„ 30.	Goods on hand valued at cost	445	9	0

Open the books by means of a Journal entry, enter up the various books of account and post to the Ledger. Balance the Cash Book. Make out a Trial Balance, Profit and Loss Account and a Balance Sheet as at June 30, 1910.

Part II.

(Four questions only are to be attempted. Answers should be brief.)

1. What is (a) a Statement of Account? (b) A Debit Note?
2. What accounts do you close to the Profit and Loss Account, and why?
3. What is Gross Profit?
4. Briefly explain the use of the Ledger.
5. How does a trader pay accounts through a banker? Give a specimen of a form that is used in making such payments.
6. What is Interest, and how is it generally calculated?

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS.

INTERMEDIATE, 1911.

[3 hours allowed.]

Part I. Compulsory.

The books of Messrs. Knowles & Co. on December 31, 1910, showed the following balance: Cash £77 14s., balance at the Yorkshire Bank £1,045 11s., bills receivable £297 19s., bills payable £175 14s. 3d.; creditors, H. Crewdson £77 14s., J. Wilson £357 7s., and C. Cooper (loan) £2,000. Debtors, J. Beck £87 11s., H. Waddington £137 17s. 7d., and W. Barclay £86 14s. 4d. Fixtures and fittings £220, machinery and plant £1,270. Stock on hand £1,700. The capital to be divided between the partners, C. Knowles having three-fifths and G. Knowles two-fifths.

832 BOOK-KEEPING AND ACCOUNTS

1910.		£	s.	d.
Jan.	2.	Received cheque from H. Waddington, dis. 17s. 7d.	50	17 7
	2.	His acceptance at 2 m/d	87	0 0
	2.	Sold cuttings for cash	14	7 6
	3.	Shipped on consignment to Messrs. Henri & Co., Calais, 5 tons of Imit. Art Paper at £36	180	0 0
	3.	Paid by cheque freight and charges on above	5	18 4
	4.	Paid cash for repairs to machinery	7	7 0
	4.	Purchased chemicals from C. Firth and paid for same by cheque	54	18 0
	5.	Sold J. Beck printing paper, 3 tons at £28	84	0 0
	5.	Paid H. Crewdson by cheque amount due to him, less 5 per cent. discount (£3 17s. 9d.)		
	7.	Sold J. Beck brown craft, 15 tons at £12 10s.	187	10 0
	10.	Bought of W. Barclay, esparto, 30 tons at £4 10s.	135	0 0
	10.	Received acceptance at 2 m/d from J. Beck, including interest at 5 per cent. per annum on £187 10s.	189	1 3
	12.	Gave J. Wilson bill at 1 m/d.	150	0 0
	13.	Paid J. Wilson cheque, less dis. 5 per cent., total	72	0 0
	15.	Paid cheque to C. Cooper on account of loan	500	0 0
	17.	C. Knowles drew cheque for private purposes	50	0 0
	21.	Bank received payment for B/R	145	0 0
	21.	Agreed to accept composition of 16s. in the £ on Waddington's acceptance, not yet due, and wrote off the balance		
	21.	Received cheque on account of above	69	12 0
	22.	Sold H. Barclay sundry items	110	0 0
	23.	Paid cash for coal and coke	33	0 0
	24.	Paid C. Wallis for the account of G. Knowles (the junior partner) cheque	14	0 0
	25.	Received A/S from Henri & Co., Calais, with draft at sight on London, consignment having been sold	250	16 0
	25.	Received cheque from T. Harvey, being part payment for account previously written off as bad	20	0 0
	26.	Discounted B/R £80 and received cash	79	6 8
	27.	Purchased waste (used in manufacturing) for cash	14	0 0
	29.	Paid carriage account, cheque	17	8 9
	30.	Paid sundry expenses, cash	12	14 8
	30.	Paid wages, cash	80	10 0
	30.	Stock on hand	1484	0 6

You are required to enter the above transactions in the various books, post to the Ledger, and draw up a Trial Balance. The Cash Book must be balanced. Then make the following adjustments, debiting or crediting a Profit and Loss and respective accounts direct, complete Profit and Loss Account, and draw up in proper form a Balance Sheet for January 31.

Rent of premises £120 per annum: 5 per cent. per annum to be allowed to partners on capital (ignoring withdrawals); 5 per cent.

per annum to be allowed on loan, taking into account proportion repaid as half a month. Depreciate machinery and fittings 10 per cent. per annum. No Drawings Accounts required. Profit to be divided according to capital.

Part II.

(Four questions only are to be attempted. Answers should be brief.)

1. Define : Bank Rate, Negotiable, Profit, Days of Grace.
2. Explain the nature of the entries which are passed through the Journal in practical work.
3. Differentiate between Single and Double Entry Book-keeping.
4. Explain the difference between Consignments and Sales. How are they treated in the books?
5. A merchant who has a fair and increasing business, but keeps his accounts by so-called single-entry, now desires to have a proper system of double-entry book-keeping. State the procedure and what books you would recommend to carry out his object.
6. What is a Manifest? A Mate's Receipt? A Charter Party?

MIDLAND COUNTIES UNION OF EDUCATIONAL
INSTITUTIONS, 1911.

ADVANCED.

[3 hours allowed.]

Part I. Compulsory.

Henry Moore, trading as Moore & Co., decided to convert his business into a private limited company. On December 31, 1909, his Balance Sheet was as follows—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Bank Overdraft .	427	4	2	Cash in hand (Petty Cash).	55	14	8
Sundry Creditors	2,475	10	0	Sundry Debtors .	4,310	7	6
Parkes (Loan) .	1,000	0	0	Premises .	3,500	0	0
Capital . .	10,300	0	0	Machinery and Plant .	856	15	0
				Fixtures and Fittings .	279	17	0
				Blackmore Co. Shares, 100 fully paid £10 at par .	1,000	0	0
				Stock on hand .	4,200	0	0
	<hr/>				<hr/>		
	£14,202	14	2		£14,202	14	2

Under an agreement dated Decemoer 31, 1909, Hy. Moore was to be credited with interest at the rate of 5 per cent. per annum on the above capital from that date to the date of Registration. It was also agreed that the Vendor should retain the £1,000 Blackmore & Co. Shares, and in addition receive £11,000 in fully-paid £5 Ordinary Shares when the Company was floated; the difference

£1,700 being considered as Goodwill, the latter to be extinguished at the rate of £250 per annum. The Company were to take over all other liabilities and assets. The Company was registered as Moore & Co., Ltd., on March 31, 1910, with a capital of £30,000 divided into 4,000 Ordinary Shares of £5 each, and 2,000 5 per cent. Preference Shares of £5 each.

In addition to the Vendor's shares there was an issue of 900 Ordinary and 1,000 Preference, and 10s. per share was paid, the amount having been paid to the company's bankers.

During the year the transactions were—

	£	s.	d.
Purchases	5,470	17	4
Sales	11,975	6	8
Inward returns	428	5	5
Outward returns	114	7	9
Discounts allowed to customers	317	7	4
Discounts allowed by creditors	148	9	7
Bad Debts written off	145	14	4
Cash paid by customers	8,420	17	4
Cash paid to creditors	6,453	11	1
B/R received from customers	1,420	0	0
B/R paid into Bank and collected	846	10	0
Bank charges on Bills collected	26	4	0
Formation expenses paid	117	10	0
Wages and Salaries paid	4,065	18	6
Interest on loan to June 30 paid (less tax 1s. in £)	19	0	0
General expenses paid	475	7	7
Rent, Rates and Taxes paid	329	14	0
Repairs to Property paid	117	0	0
Repairs to Machinery paid	56	11	3
Drew from Bank for Petty Cash	260	0	0
Paid sundry petty cash expenses	289	15	1
Stock on hand December 31, 1910	5,040	0	0

You are to draw up a Trial Balance, a Trading and Profit and Loss Account, making the following adjustments in addition to any previously indicated: Depreciate Machinery and Fixtures 5 per cent. each. Reserve 5 per cent. on Book debts for Bad and Doubtful Debts. Finally draw up a Balance Sheet as at December 31, 1910.

Part II.

(Four questions only to be attempted, but No. 1 must be tried.)

1. Comment on the Balance Sheet on the next page.
2. Explain: Del credere, Cheque Bank, and Documentary Bills.
3. How does a Statement of Affairs differ from a Balance Sheet: when is the former generally prepared?
4. What is the "Double Account System," and what objections are there to it?
5. What do you understand by: Course of Exchange, Arbitration of Exchange, and Hypothecation?
6. What are Consols, and how are their values ascertained and controlled?

At June 30, 1906.

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CAPITAL AND LIABILITIES.		PROPERTY AND ASSETS.	
£	s. d.	£	s. d.
To Capital—		By Buildings, Engines,	
16,000 Shares at £10	160,000 0 0	Boilers, Materials,	
Mortgage Debentures	70,000 0 0	and Utensils . .	190,470 0 0
Accounts owing by the		Outlay during half-	
Co.	29,086 18 3	year	3,500 0 0
Reserve Fund	89,000 0 0	„ Stock, Cotton, Yarn	193,970 0 0
Profit and Loss Account—		and Stores . .	111,427 0 0
Balance at December 29,	11,085 0 0	„ Accounts owing to Co.	48,420 17 4
1905		Cash at Bank . .	5,854 0 11
Less Dividend paid Janu-	7,000 0 0		
ary 1906			
	4,085 0 0		
Balance from Revenue	7,500 0 0		
Account			
	11,585 0 0		
	£359,671 18 3		£359,671 18 3

COUNTY COUNCIL OF THE WEST RIDING OF
YORKSHIRE.

BOOK-KEEPING AND ACCOUNTANCY.

[3 hours allowed.]

Third Year, 1910.

1. Write up in the Cash Book, Sales and Purchase Day Books, and Ledger, the following Transactions of John Wilson. Prepare Trial Balance, Profit and Loss Account and Balance Sheet, March 31, 1910. Use Journal for closing entries only.

		£	s.	d.
Jan.	1. Cash in hand	16	15	0
"	3. Bought Goods of M. Noble & Co.	35	0	0
"	8. Sold Goods to S. James	7	16	3
"	19. Bought Goods of M. Noble & Co.	4	13	4
"	28. Paid Trade expenses	1	11	0
"	28. Paid Wages	7	0	0
"	31. Sold Goods to S. James	19	2	0
Feb.	5. Sold Goods for cash	2	7	6
"	12. Bought Goods from M. D. Knox	12	16	4
"	14. Paid Rent	5	10	0
"	24. Sold Goods to B. Marshall & Sons	9	19	0
"	29. Sold Goods to S. James	2	12	10
Mar.	5. Received cash from S. James	29	11	6
"	8. Bought Goods from M. D. Knox	9	15	4
"	9. Paid cash to M. D. Knox	22	11	8
"	12. Bought Goods for cash	1	13	10
"	14. Bought Goods from M. Noble & Co.	52	12	4
"	19. Paid Wages	7	0	0
"	24. Paid Trade expenses	1	16	0
"	31. Stock on hand £10.			

2. Write up in Thomas Walker's Cash Book with columns for Discount, Cash and Bank, the following items: balance the Cash and Bank columns on April 30—

		£	s.	d.	
April	1. Cash in hand	13	17	10	
"	2. Paid into Bank	10	0	0	
"	4. Sold Goods for cash	1	4	9	
"	5. Paid advertisements	0	2	4	
"	6. Paid by cheque to Martin & Co.	7	12	2	discount 2s. 10d.
"	8. Received from Barnett & Co. and paid to Bank	9	5	0	discount 25s.
"	9. Received from Hy. Hirst	1	18	4	discount 1s. 8d.
"	11. Bought Goods for cash	4	5	0	
"	13. Received from Benj. Wright	1	19	0	discount 1s.
"	15. Paid for Coals	0	15	3	
"	18. Paid to self	1	17	10	
"	23. Received from Chas. Dearman	2	18	6	discount 1s. 6d.

		£	s.	d.	
April 23.	Received for Goods sold .	0	17	6	
„ 23.	Paid into Bank the last two items.				
„ 26.	Paid to Andrews & Son .	1	10	0	
„ 28.	Cash drawn from Bank .	2	10	0	
„ 29.	Paid Nasmith Bros. by cheque	9	7	6	discount 12s. 6d.
„ 30.	Paid sundry expenses .	1	8	4	
3.	Give a full description of a Petty Cash Book and the method of using it.				
4.	State five different kinds of mistake which will cause the totals of the Trial Balance to disagree.				
	Mention an error which will <i>not</i> affect the Trial Balance totals.				
5.	Explain what is meant by "Taking Stock" and describe the process as completely as you can.				

COUNTY COUNCIL OF THE WEST RIDING OF
YORKSHIRE.

Fourth Year, 1910.

John Major, electrician, finds that on January 1, 1910, his financial position is—

Cash in hand £13 4s. 9d. Stock in trade, Lamps £28 14s. 3d., Fittings £72 9s. 8d., Materials £15 8s. 2d. Debts due to him are R. Varvell £6 15s. 4d., T. Mitchell £8 18s., Harris & Co. £1 6s. 9d. He has £149 10s. at the Bank, and his machinery and tools are worth £35. His liabilities are £56 10s. to Drury & Co., Ltd., £10 5s. 9d., to Norton & Son., and Bill Payable due March 4, £48 10s.

(Note: The Sales and Purchase totals may be posted quarterly.)

His Sales and Work done are—

Jan. 18.	Sold to R. Varvell 18 Somar 25 c.p. Lamps at 48s. dozen.
„ 29.	Four weeks Cash Sales £10 18s.
„ 31.	Fixed for T. Mitchell Lighting installation, including wiring and fittings: 17 Lights at 21s. per light, and supplied 24 16 c.p. Lamps at 21s. per dozen.
Feb. 7.	For Harris & Co. overhauled Electric Bells per contract for £11 10s. and supplied 40 feet wire at 3d. foot.
„ 19.	Sold to R. Varvell a Transformer £8 10s. and charged £1 15s. labour and 18s. 6d. for materials in fixing same.
„ 26.	Four weeks Cash Sales £23 14s.
Mar. 5.	For Harris & Co. repaired Lightning conductor, charged labour £3 18s. and materials 17s. 6d.
„ 23.	Fixed for R. Varvell one Motor and accessories, complete for £35.
„ 23.	Four weeks Cash Sales £37 16s. 4d.

His *Purchases* (to be separated into Lamps, Fittings, Materials, and Machinery and Tools) are—

- Jan. 4. Bought from Drury & Co., Ltd., Lamps £12, Fittings £8 15s. 9d.
 „ 31. Bought from Harris & Co., Transformer (Fittings) £8 10s. less 15 per cent. trade discount.
 Feb. 16. Bought from Norton & Son, Fittings £16 8s. 6d., Materials £10 12s. 3d., New Tools £5.
 „ 18. Bought from Drury & Co., Ltd., Lamps £72 15s., Materials £6.
 Mar. 12. Bought from Norton & Son, Fittings £19 5s., New Lathe £10.
 „ 20. Bought from Harris & Co., Motor for workshop £12.
 Jan. 20. R. Varvell returns 3 Lamps and is credited invoice price of Jan. 18.
 Feb. 7. T. Mitchell returns 4 Lamps at 1s. 9d. and is also credited special allowance on contract £1 10s.
 „ 8. J. Major returns 4 Lamps to Drury & Co., Ltd., and is credited 6s.
 Mar. 25. Harris & Co. allow £1 for overcharge on Motor.

The Cash received is (Items marked B are paid into Bank)—

Note: The Cash Book may be balanced quarterly.

- Jan. 26. R. Varvell, £6, discount 3s. 4d. B.
 Feb. 7. T. Mitchell, £26 7s., discount 13s. B.
 „ 14. R. Varvell, £3 10s. discount 2s.
 „ 17. For old Lathe, £2 10s.
 Mar. 3. Harris & Co., £11 14s., discount 6s. B.
 Also the Cash Sales as mentioned above.

The cheques drawn on the Bank are—

- Jan. 15. Rates, £6 18s. 6d.
 „ 18. Norton & Son, £10, discount 5s. 9d.
 „ 20. Drury & Co., Ltd., £53 13s. 6d., discount £2 16s. 6d.
 Feb. 8. Drury & Co., Ltd., £19 19s., discount 10s. 9d.
 Mar. 3. Bill advised £48 10s.
 „ 23. Bill due June 23 paid by cheque less discount 15s
 „ 26. Rent £10.

On Feb. 9 T. Mitchell's cheque is returned by Bank, dishonoured. On March 20 J. Major receives (and pays into Bank) in settlement 15s. in the £, and writes off the balance of Mitchell's account as a Bad Debt.

The Cash payments are—

- Jan. 26. Advertising £2 6s.
 Feb. 9. Harris & Co. £5 15s. (discount 3s. 6d.).
 „ 12. Trade Expenses £1 16s. 9d.
 Mar. 3. Advertising £1 5s., Trade Expenses 14s.
 „ 7. Insurance 10s.
 Also Wages each 4 weeks, viz. Jan. 29, £12 6s. 9d.;
 Feb. 26, £15 8s. 2d.; and March 26, £18 9s. 5d.

J. Major withdraws for personal use £8 each four weeks (total £24).

On Feb. 9 Harris & Co. (Sales Ledger) are credited with discount 9d. and £1 6s. is transferred to Bought Ledger, thus squaring the account of Jan. 31.

On Feb. 20 Major accepts Drury & Co.'s, Ltd., Bill £60, due June 23.

On March 20 Major accepts Norton & Son's Bill £40, due July 23.

At March 31 the Stock is: Lamps £90, Fittings £86, Materials £20.

Write up the ruled set of Books provided, close them at March 31, 1910, and prepare a Trading Account and Balance Sheet. Show in the Trading Account the *cost* of Lamps, Fittings and Materials separately.

COUNTY COUNCIL OF THE WEST RIDING OF
YORKSHIRE.

Fifth Year, 1910.

1. MILDRED & MERRYWEATHER.

TRIAL BALANCE, December 31, 1909.

	£	s.	d.	£	s.	d.
J. C. Mildred, Capital as at July 1, 1909				8,653	14	8
W. F. Merryweather, Capital as at July 1, 1909				5,610	3	7
Land and Buildings as at July 1, 1909	6,300	0	0			
Machinery, Plant and Utensils	6,250	8	2			
Office Furniture	130	0	0			
Executors of Henry Watson, Loan on Mortgage 4 per cent.				4,000	0	0
R. A. Merryweather, Bonus Account as at July 1, 1909				329	10	0
J. C. Mildred, Drawing Account	378	4	10			
W. F. Merryweather, Drawing Account	229	3	1			
R. A. Merryweather, Drawing Account	141	6	7			
Materials Purchased	14,187	14	9			
Wages	4,544	6	8			
Office salaries	189	11	3			
Travellers' salaries	432	9	6			
Rates and Insurance	121	15	10			
Discount Allowed	1,064	14	2			
Repairs and renewals of Machinery	248	3	1			
Sales				20,465	7	11
Royalty (on manufacturing process)	149	1	2			
Gas and Water Account	35	13	7			
Rent of Stabling let off				41	2	9
Travellers' Commission	123	4	2			
Bad Debt Account				133	9	1
Travelling Expenses	269	13	1			
Bank Charges	68	9	3			

	£	s.	d.	£	s.	d.
Discount received				387	6	8
Returns Inwards	143	5	7			
Creditors				1,250	10	0
Trade Expenses	179	10	5			
Trading Account. Stock of materials						
July 1, 1909	3,611	17	6			
Debtors	2,700	2	11			
Bank				328	16	3
Petty Cash Balance	5	0	1			
Bills Payable				338	14	9
Interest Account	40	0	0			
	<u>£41,543</u>	<u>15</u>	<u>8</u>	<u>£41,543</u>	<u>15</u>	<u>8</u>

Stock of Materials December 31, 1909, £7,032 11s. 9d.

J. C. Mildred and W. F. Merryweather are partners and divide profits and losses equally after being credited with Interest on Capital at 5 per cent. per annum.

R. A. Merryweather is the Factory Manager and is entitled to a bonus of 15 per cent. of the profit after allowing for all Interest. He is also entitled to Interest at 5 per cent. per annum on the amount of his Bonus left in the business.

Interest on all drawings is ignored.

Land and Buildings Account, Depreciation 1 per cent. per annum.

Machinery, Plant and Utensils Account includes additions this half-year £179 8s. 2d., write off for Depreciation 10 per cent. per annum on balance at July 1, 1909.

Office Furniture Account. This Account has been regularly depreciated each half-year at 10 per cent. per annum. This half-year it has also been reduced on September 30, 1909, by the sale of a Typewriter for £5, which was purchased on June 30, 1908, for £25; include the loss on this transaction with this half-year's depreciation.

Interest on Mortgage owing from October 1, 1909 (ignore Income Tax).

W. F. Merryweather requires £100 transferring from his Account to the credit of R. A. Merryweather as a present at Christmas, 1909.

Wages include £12 13s. 6d. paid to an injured workman, and recoverable from the Insurance Company.

Rates owing £75. Insurance prepaid £30.

Discount allowed should be shown in Trading Account as a deduction from Sales, Reserve $6\frac{1}{2}$ per cent. of the Debtors.

Gas and Water. The note from the Corporation received February 2, 1910, shows the gas for the half-year ending December 31, 1909, is £132 11s. 8d., water for half-year ending June 30, 1910 (payable in advance), is £33 6s. 8d. The Corporation allow 5 per cent. discount on this note.

J. C. Mildred should be charged 10s. per week for the half-year for use of Stabling belonging to the business.

Bad Debt Account, Reserve £200.

Discount received should be shown in Trading Account as a deduction from Materials purchased; Reserve $2\frac{1}{2}$ per cent. of Creditors.

Prepare a Trading Account showing the Gross Profit; the profit before charging Partners' Interest on Capital; and the net Profit.

Show the Balance Sheet, December 31, 1909, and prepare copies of the Partners' Capital Accounts for the half-year.

2. Referring to the previous question state what percentage the following items in the Trading Account bear to the net Sales—

Materials consumed (including Royalty).

Wages.

Gross Profit.

Net Expenses before charging Partners' Interest.

Net Profit (after Bonus).

3. Explain what is meant by—

Nominal Capital.

Subscribed Capital.

Called-up Capital.

Paid-up Capital.

4. A Limited Company has issued £40,000 $4\frac{1}{2}$ per cent. First Mortgage Debenture Stock, interest payable March 31 and September 30. Being in possession of surplus funds, it purchases £1,000 of this Debenture Stock at 95 per cent. on July 1, 1910. The Company's year ends September 30. State fully how this transaction should be dealt with in the books, and also in the Balance Sheet at September 30, 1910.

5. A Retail Trader has 4 shops (A, B, C and D). His total figures for the year are Sales A £4,000, B £3,600, C £3,800, D £2,000. The Stock at the beginning of the year is £5,500, and at the end £5,300. The Purchases are £9,800. The Expenses not kept separately for each Shop are Printing, Stationery and Advertising £48, Trade Expenses £210.

The Rents and Rates are A £150, B £110, C £180, D £115, and the Wages are A £218, B £194, C £234, D £180. On the basis that each shop earns the same rate of gross profit, prepare a statement showing the net profit at each shop, dividing the expenses in proportion to the business done.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

BOOK-KEEPING AND ACCOUNTANCY.

[3 hours allowed.]

Third Year, 1911.

1. Write up in the Cash Book, Sales and Purchase Day Books, and Ledger, the following Transactions of Wm. Stewart. Prepare Trial Balance, Profit and Loss Account and Balance Sheet, June 30, 1911.

		£	s.	d.
April	1. Cash in hand	15	10	0
"	3. Bought Goods for cash	11	11	6
"	5. Sold Goods to C. Coates	6	2	3
"	7. Received cash from C. Coates	4	0	0
"	9. Bought Goods of W. Musgrave	9	4	2

		£	s.	d.
April 12.	Sold Goods to C. Coates	20	0	3
" 17.	Paid Trade Expenses	3	5	0
May 1.	Paid Rent	3	6	8
" 2.	Bought Goods of W. Musgrave	10	10	0
" 5.	Sold Goods to C. Coates	17	2	6
" 6.	Received cash from C. Coates	22	0	0
" 6.	Allowed Discount to C. Coates	0	2	6
" 10.	Sold Goods for cash	2	3	6
" 13.	Bought Goods of W. Musgrave	11	0	6
" 13.	Paid cash to W. Musgrave £19 10s., and he allows Discount 4s. 2d.			
" 23.	Bought Goods for cash	7	2	2
" 24.	Sold Goods to C. Coates	6	11	0
" 24.	Received cash from C. Coates	10	0	0
" 29.	Bought Goods of W. Musgrave	32	6	3
" 31.	Paid Trade Expenses	5	15	0
June 4.	Sold Goods to C. Coates	4	8	9
" 11.	Received cash from C. Coates £13 10s., and allowed him Discount 3s. 6d.			
" 14.	Sold Goods for cash	1	18	6
" 22.	Paid cash to W. Musgrave £10 15s., and he allowed Discount 5s. 6d.			
" 26.	Received cash from C. Coates	2	0	0
" 30.	Paid Trade Expenses	1	14	6
" 30.	Stock of Goods on hand £40.			

2. What is the meaning of

Credit Sale,
Credit Note,
Credit Posting?

3. Upon counting your cash in hand on April 4 you find that it is £1 10s. 9d. less than the balance shown by the Cash Book. On April 1 it agreed exactly. Say how you would proceed to find the cause of difference.

4. Explain as fully as possible the "Trial Balance," stating the object for which it is prepared, and how often it should be taken out.

5. Describe the process of sending out "Customers Statements of Account," showing how they are prepared and for what purpose they are used.

6. On April 7 Thomas Lewis's Cash Book is accidentally burnt. He knows that on April 1 he had £3 cash in hand and £20 cash at Bank and the following sources of information are available—

Counterfoil Receipt Book shows—

		£	s.	d.		£	s.	d.
April 1.	C. Wiggins, cash	14	5	0	discount	0	15	0
„ 3.	W. Turner, cash	0	19	6	discount	0	0	6
„ 5.	R. O. James, cash	9	16	10	discount	0	10	8

Counterfoil Cheque Book shows—

		£	s.	d.		£	s.	d.	
April 1.	Parker Bros., cash .	.	6	11	3	discount	0	3	9
„ 3.	Kirkly & Co., cash .	.	4	9	0	discount	0	4	8
„ 5.	E. H. Hunter, cash .	.	22	10	0	discount	2	10	0

Receipted Accounts File has receipts given by the following—

	£	s.	d.		£	s.	d.
April 2. Manners & Son, cash .	1	13	3	discount	0	1	9
„ 4. W. Hopwood, cash .	5	17	0	discount	0	3	0
„ 6. R. Fletcher, cash .	1	18	0	discount	0	2	0

Bank Paying-in Book contains memoranda of moneys paid in to Bank—

April 2. £7.

„ 6. £5 10s.

Wages Book shows Wages paid April 7, £5 15s. 9d.

Enter up a new Cash Book commencing April 1, with columns for Discount, Cash and Bank, showing Balances at April 7.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

Fourth Year, 1911.

The business of J. & H. Mason, Ironfounders, is carried on by James Mason and Henry Mason, who are partners.

Their Balance Sheet at December 31, 1910, is—

Capital and Liabilities.

	£	s.	d.	£	s.	d.
Creditors—Lewis & Co.	80	0	1			
Arroll & Sons	16	4	8			
				96	4	9
Bill Payable				80	0	0
Capital—Jas. Mason	1,574	6	8			
Hy. Mason	683	5	0			
				2,257	11	8
				<u>£2,433</u>	<u>16</u>	<u>5</u>

Assets.

	£	s.	d.	£	s.	d.
Machinery and Plant				1,809	19	4
Stock				439	6	2
Debtors—Bean & Moor	35	8	9			
Rentons, Ltd.	83	4	6			
				118	13	3
Bank				62	8	11
Cash				3	8	9
				<u>£2,433</u>	<u>16</u>	<u>5</u>

The partners are entitled to Interest at 5 per cent. p.a. on their Capital and share profits equally.

You are required to record the transactions for the two months ending February 28, 1911, in the ruled set of books provided, to close the books at February 28, and show Balance Sheet at that date.

The Cash Book should be balanced monthly, also the Sales and Purchases totals posted monthly.

Invoices sent out—

- Jan. 6. Rentons, Ltd., York, 12 Castings No. 495, total weight 19 cwt. 1 qr. 2 lbs. and 12 Castings No. 608, total weight 14 cwt. 2 qrs. 26 lbs. at 35s. per cwt. as per Order No. F. 510, sent per North Eastern Railway, (carriage paid) in a case No. 42 for which a charge of 10s. is to be made.
- „ 30. Bean & Moor, Heckmondwike, 50 sets small Furnace Doors and Grates 36 cwt. 1 qr. 14 lbs. at 12s. per cwt. and 100 lengths No. 58 Gratings 36 inches by 6 inches by $\frac{1}{2}$ inch, 8 cwt. 2 qrs. at 11s. per cwt.
- Feb. 9. Bean & Moor, Heckmondwike, 3 tons 4 cwt. 1 qr. Castings at 16s. per cwt.
- „ 18. Rentons, Ltd., York, 20 tons 3 cwt. 3 qrs. Castings at 15s. per cwt.
- „ 21. Bean & Moor, Heckmondwike, 1 gross Fig. 27 Inlets fitted complete 5 tons 1 cwt. 2 qrs. 19 lbs. at 5s. 3d. each and 16 18-inch Grate Bars 1 cwt. 1 qr. 14 lbs. at 12s. per cwt., packing case No. 43, 10s.

Credit Notes sent out—

- Jan. 10. Rentons, Ltd., York, Case No. 42 returned 10s.
- „ 31. Bean & Moor, Heckmondwike, allowance for short weight on Furnace Doors and Grates 1 cwt. 0 qrs. 12 lbs. at 12s. per cwt. 13s. 3d.
- Feb. 27. Bean & Moor, Heckmondwike, Case No. 43 returned 10s.

Invoices received—

- Jan. 9. Lewis & Co., Iron and Materials £33 14s. 6d., Coal £19 8s. 6d., Repairs to Machinery £7 18s. 9d.
- „ 31. Arroll & Sons, Trade Expenses £5 11s. 2d., and Commission 5 per cent. on net Sales for January.
- „ 31. North Eastern Railway Co., Carriage £13 2s. 6d., Rent £20.
- „ 31. Lewis & Co., Iron and Materials £59 6s. 2d., Coal £23 4s. 3d., Machinery and Plant £50 15s.
- Feb. 8. Arroll & Sons, Trade Expenses £6 19s. 5d., Machinery and Plant £18 3s. 2d., Iron and Materials £31 19s. 6d.
- „ 23. Lewis & Co., Iron and Materials £25 16s. 11d., Coal £25 2s. 3d., Repairs to Machinery £15 9s. 6d.
- „ 28. Arroll & Sons, Commission 5 per cent. on net Sales for February, and Trade Expenses £6 13s. 2d.
- „ 28. North Eastern Railway Co., Carriage £15 11s. 7d., Rent £20.

Credit Notes received—

- Jan. 12. Lewis & Co., Iron and Materials £2 11s. 3d.
- „ 31. Arroll & Sons, Trade Expenses 5s. 9d.
- Feb. 9. Arroll & Sons, Machinery and Plant £1 5s. 8d., Iron and Materials £3 18s. 2d.
- „ 25. Lewis & Co., Iron and Materials £5 3s. 1d. Coal £2 1s. 9d.

Cash, etc., received—

- Jan. 5. Bean & Moor, cheque £33 13s. 4d., discount £1 15s. 5d.
- „ 6. Edward Brown, an employee, for Coal sold to him this day £1 5s.

- Jan. 13. Drew cash from Bank by cheque £40.
 „ 26. Rentons, Ltd., cheque £30, cash £49 1s. 3d., discount £4 3s. 3d.
 Feb. 7. Bean & Moor, cheque for January Account less 5 per cent. discount.
 „ 10. Drew cash from Bank by cheque £60.
 „ 13. Lewis & Co., Cash 10s. amount of January Account overpaid.
 „ 23. Rentons, Ltd., Bankers' Draft payable on demand £20, cash £36 10s. 6d., discount £2 19s. 6d.

Payments—

- Jan. 6. Paid to Bank £35.
 „ 13. Wages £30 6s. 6d.
 „ 17. Arroll & Sons, by cheque £15 16s. 6d., discount 8s. 2d.
 „ 23. Advised Bank of Bill £80 due to-morrow.
 „ 26. Lewis & Co., cheque £70, cash £6, discount £4 0s. 1d.
 „ 27. Wages £32 3s. 9d.
 „ 27. Paid to Bank £32.
 Feb. 3. Bank charge Account for cheque book 8s.
 „ 5. Paid Property Tax by cheque £11 13s. 4d. on behalf of landlords, North Eastern Railway Co., to be refunded by them.
 „ 10. Paid Wages £35 11s. 9d.
 „ 10. Paid North Eastern Railway Co. Cash £21 9s. 2d.
 „ 11. Lewis & Co. by cheque £182 14s. 1d., discount £9 11s. 10d.
 „ 23. Paid to Bank £45.
 „ 24. Paid Wages £34 8s. 6d.
 „ 28. James Mason (partner) Cash £10.
 „ 28. Henry Mason (partner) Cheque £10.
 Stock, February 28, 1911, £553 14s. 6d.

COUNTY COUNCIL OF THE WEST RIDING OF
 YORKSHIRE.

Fifth Year, 1911.

1. THE "WEEKLY BANNER" LIMITED.

TRIAL BALANCE, March 31, 1911.

	£	s.	d.	£	s.	d.
Cash Sales (newspapers)				642	6	2
Agents' Sales				4,397	13	3
Advertisements charged				6,869	18	7
Cash in hand	53	5	5			
Agents' Returns	359	2	4			
Sundry Printing Sales				12	15	3
Advertisers' Prepayments, unexhausted				37	9	0
Copyright	2,000	0	0			
Machinery and Plant, March 31, 1910	9,000	0	0			
Freehold Property	4,000	0	0			
Office Furniture		120	0			
Bank	3,630	8	0			

	£	s.	d.	£	s.	d.
Revenue Surplus, March 31, 1910				1,530	7	1
£7,000 Consols 2½ per cent. at cost	5,869	0	4			
Reserve Fund Account				400	0	0
Discount allowed	103	11	1			
Paper, Ink, etc. Account	2,960	13	8			
Trade Expenses	170	6	10			
Wages	4,845	13	0			
Discount received				379	4	3
Bad Debts	90	17	6			
Interest on Consols (9 months received)				123	11	11
Advertisements in other Papers	76	7	4			
Fuel, etc.	157	2	4			
Repairs	206	16	5			
Rent of Branches, Rates and Taxes	129	8	8			
Correspondence Fees	368	2	4			
Printing and Stationery	108	15	6			
New Plant bought Oct. 1, 1910	400	0	0			
Telephone	78	8	11			
Billposting and Carriage	225	16	9			
Insurance	48	10	0			
Postage and Telegrams	187	12	2			
Travelling Expenses	195	16	10			
Share Capital 4,660 £10 shares £5 called up				23,300	0	0
Bank Interest				125	6	0
Creditors				850	0	10
Agents' Debit Balances	579	1	5			
Subscribers' Balances	38	4	4			
Advertisers' Balances	2,758	12	5			
Sales to Subscribers				84	1	7
Credit Balances, Subscribers'				10	19	8
Ten £1 shares "Yellow Press Co., Ltd." no value	2	0	0			
	<u>£38,763</u>	<u>13</u>	<u>7</u>	<u>£38,763</u>	<u>13</u>	<u>7</u>

Wages owing £95 16s. 4d.

Three Months' Interest less Tax at 1s. 2d. in £ due on Consols.

The Stocks at March 31, 1911, are : Paper, Ink, etc. £324 10s.

Fuel, £3 10s.

Telephone, £25 is prepaid.

Reserve £150 for estimated costs in Libel action.

Reserve £50 for Bad Debts.

Depreciation on Plant 7½ per cent. per annum.

Depreciation on Furniture 5 per cent. per annum.

Provide 10 per cent. for allowances on Advertisers' Debts.

Write down Consols to 79½ per cent.

Provide Managers' Commission 5 per cent. on Year's Profits before crediting any interest or charging loss on Investments.

Prepare Balance Sheet and Trading Account for year ending March 31, 1911.

2. For the year 1910 a Trading Account stands thus—

	£		£
Cost of Materials	5,000	Sales	10,000
Wages	3,000		
Discount	500		
Expenses	1,500		
	<u>£10,000</u>		<u>£10,000</u>

State the above costs as percentages on Turnover.

As this leaves no profit, the Trader considers how he can improve matters, and finding that he cannot advance his selling prices he will aim at increasing the Turnover by £2,000, and reducing the percentage costs on Turnover by Materials 2, Wages 1, Discount 2; the Expenses remain at the same amount.

Show his Trading Account for 1911 on the basis of these alterations.

3. Explain what is meant by "Capital Expenditure," and state the considerations which would guide you in deciding whether a particular item of expenditure properly comes within this category or not.

4. A business has ten Sales Ledgers marked respectively *A*, *B*, *C*, etc. The Sales Day Book has analysis columns corresponding to the Ledgers. Each Ledger is balanced separately each month. On January 20 a sale of £10 posted to *F* Ledger is placed in Day Book in *G* column by mistake. Say how the January monthly summaries of *F* and *G* Ledgers are affected, and how the balances shown by the summaries will compare with the balances as extracted from the Ledgers.

5. The Rajputana Syndicate, Ltd., at December 31, 1910, stood as follows—

	£	£
10,000 £1 6 per cent. Cumulative Preference Shares		10,000
1,500 £1 Ordinary Shares		1,500
4 per cent. Debentures		3,000
Creditors		1,300
Bank		450
		<u>16,250</u>
Expenditure on Patents	8,500	
Cash in hand	25	
Loss on Trading	6,220	
Stock of Materials	325	
Sundry Debtors	180	
W. Barwick loan at 5 per cent. per annum	1,000	
		<u>£16,250</u>

The Preference Dividend is at above date 5 years in arrear. There are no transactions until June 30, 1911; on this date the Company is supposed to be wound up. The amounts then realized are: Patents £20,000, Stock £180, Sundry Debtors £120. The expenses of winding-up are £800. The Preference Shares are only

entitled to repayment in full with arrears. Prepare a statement showing the distribution of the assets. Ignore Income Tax.

W. Barwick holds £500 Debentures, 1,000 Preference Shares, and 500 Ordinary Shares. Prepare a statement showing how much is due to him.

6. An Hotel proprietor makes the following arrangement with the Imperial Telephone Co. On January 1 he pays £10 for 12 months' rent in advance, and £10 8s. 4d. for 5,000 calls. His customers can only use the service by paying a penny into a box, this money belongs to the Hotel proprietor. The total calls used are: January 480, February 540, March 600. The bills for Trunk Fees (payable by Hotel) are January 9s. 6d., February 8s. 3d., March 11s. 6d. The sums collected from the box are January £1, February £1 5s., March £1 10s. Prepare account showing the cost of the Telephone for each of these 3 months.

INSTITUTE OF BANKERS.

PRELIMINARY PAPER, April 1909.

[2 hours allowed.]

NOTE.—Seven only out of the following ten questions are to be attempted. The number of marks assigned to each question is given in brackets at the end of the same.

DEFINITION AND GENERAL PRINCIPLES.

1. M. Rankin and W. King decide to amalgamate their two businesses under the style or firm of Rankin & King.

The firm decided to take over the following Assets and Liabilities at the figures stated—

From M. Rankin—	£	s.	d.
Land and Buildings	10,000	0	0
Plant and Machinery	5,000	0	0
Stock-in-trade	3,000	0	0
Work in Progress	1,000	0	0
Debtors	5,500	0	0
Cash at Bank	1,000	0	0
Bills Receivable	2,000	0	0
Bills Payable	3,000	0	0
Reserve for Discount on Debtors	150	0	0
Creditors	6,000	0	0
Mortgage Creditor	8,000	0	0
From W. King—			
Stock-in-trade	6,000	0	0
Debtors	10,000	0	0
Cash at Bank	2,000	0	0
Creditors	5,000	0	0

Make the opening Journal entries in respect of the above, post the same to Ledger accounts, and prepare starting Balance Sheet of Rankin & King, showing the respective Capitals of M. Rankin and W. King in the new firm. [20 marks.]

2. What is the distinction between "Gross" and "Net" Profit

or Loss; also between "Account Sales" and "Account Current"? Set out an Account Current, inserting twelve amounts therein.

[10 marks.]

3. Enter the following transactions in the respective Bought and Sold Day Books, Journal, and Cash Book, and post to the Ledger; balance the Ledger accounts and prepare a trial balance.

- (a) Purchased from A. Bray & Co. 200 tons Pig Iron at 45s. per ton, £450.
- (b) Sold Wm. Smith & Co. 40 tons Pig Iron at 60s. per ton, £120. Paid Carriage thereon, £10.
- (c) Sold F. Midlane 148 tons Pig Iron at 48s., £355 4s.
- (d) Received Cheque, £118, from Wm. Smith & Son in payment of Pig Iron. Discount allowed, £2.
- (e) Received from F. Midlane cash on account, £200.
- (f) Withdrew from Bankers £100, from which were paid Salaries, £50; Rent, £40; and £10 advanced to Petty Cash.
- (g) Accepted A. Bray & Co.'s Bill for £450 at 3 months.

[20 marks.]

4. Explain the terms—

- (a) Debit and Credit.
- (b) Assets and Liabilities.
- (c) Revenue Account and Profit and Loss Account.
- (d) Cash Account and Income and Expenditure Account.

[10 marks.]

5. (a) A. Brandt sells B. Spicer Goods to the value of £500.

(b) A. Brandt buys from B. Spicer Goods to the value of £300.

(c) A. Brandt receives from B. Spicer cash, £250.

Show the above transactions as they would appear in—

(a) A. Brandt's Ledger.

(b) B. Spicer's Ledger.

[10 marks.]

6. When an Invoice of a Purchase is received, how would the accuracy of the same, in large works, be ascertained as to quantities and prices, and what signatures would be required before the book-keeper would enter such Invoice in the Purchases Day Book?

[10 marks.]

7. Make out an Account Sales of 500 bales of Cotton from New Orleans per s.s. *Wilmslow*, consigned to M. Cook & Sons on commission by John Smythe & Co.—

Sold 250 Bales = 103,270 lbs. at 5d. per lb. to W. Soley.

Sold 200 Bales = 80,375 lbs. at 6½d. per lb. to W. Boothe.

Remainder unsold.

Charges paid by Consignee as follows—

Freight, £160.

Insurance and Other Charges, £50.

Commission on Sales, 2½ per cent.

[10 marks.]

8. Explain the terms "Bill Receivable," "Bill Payable," and "Bill of Exchange."

Rule a form of Bills Receivable Book and enter particulars of two Bills thereon.

Open Personal and Impersonal Ledger Accounts in respect of the two Bills and post the Bills to such accounts.

[15 marks.]

9. How would you proceed to prepare a Profit and Loss Account and a Balance Sheet, and what nature of item would be inserted in each account respectively? [10 marks.]

10. The following figures are all Balance Sheet items, from which prepare a Balance Sheet of the firm of Black & White, December 31, 1908—

	£	s.	d.	£	s.	d.
C. Black, Capital				5,000	0	0
L. White, Capital Account in debit	2,000	0	0			
Land and Buildings	3,000	0	0			
Plant	1,000	0	0			
Debtors	6,000	0	0			
Stock of Goods	5,000	0	0			
Reserve for Bad Debts (Credit Balance)				500	0	0
Creditors				5,000	0	0
Bills Payable				2,000	0	0
C. Black, Drawings	500	0	0			
L. White, Drawings	600	0	0			
Depreciation of Buildings (Credit Balance)				500	0	0
Profit—	£	s.	d.			
C. Black, two-thirds	1,400	0	0			
L. White, one-third	700	0	0			
Loan from Bankers				2,100	0	0
				3,000	0	0

[15 marks.]

INSTITUTE OF BANKERS.

FINAL PAPER, April 1909.

[2 hours allowed.]

NOTE.—Seven only out of the following ten questions are to be attempted. The number of marks assigned to each question is given in brackets at end of same.

DOUBLE ENTRY: ELUCIDATION AND EXPLANATION.

1. S. Syme was in business, and decided to sell the Goodwill to a Limited Company.

A Limited Company was incorporated with a nominal Capital of £100,000, viz. 10,000 Shares of £10 each, of which 5,000 Shares fully paid were issued to S. Syme in respect of the Goodwill, and 3,000 Shares were applied for and allotted to the general public.

These latter 3,000 Shares were payable as follows—

£1 per Share on Application.

£2 per Share on Allotment, October 1, 1908.

£2 per Share First Call on December 1, 1908.

£2 per Share Second Call on February 1, 1909.

The Application and Allotment Money, together with £5,000 in respect of the First Call and £1,000 in respect of the Second Call,

was received and paid into the Banking Account, the balance of the Ledger account representing Calls unpaid.

Make the opening Journal and Cash Book entries for the above transactions and post the same to the Ledger.

Prepare the first Balance Sheet of the Company as at February 2, 1909, assuming that there has been no Capital expenditure and that the whole of the money received remains at the bankers. [25 marks.]

2. The following is the financial position of Richardson & Pickford at January 1, 1908—

BALANCE SHEET, January 1, 1908

Dr.			Cr.		
	£	s. d.		£	s. d.
To Creditors—			By Cash at Bankers.....	2,000	0 0
On Bills Payable.....	£800	0 0	„ Bills Receivable	750	0 0
A. Willing ...	1,250	0 0	„ Debtors—		
B. Glover.....	550	0 0	W. F. Fowle £1,200	0 0	
	2,600	0 0	M. Pilkington.....	800	0 0
„ Capital—				2,000	0 0
C. F. Richardson.....	5,050	0 0	Less Reserve for Dis-		
G. Pickford..	5,050	0 0	count.....	50	0 0
	10,100	0 0	„ Stock of Goods	1,950	0 0
			„ Plant and Machinery..	2,000	0 0
			„ Land and Buildings...	3,000	0 0
	£12,700	0 0		£12,700	0 0

The following is a summary of the Cash Book for the twelve months ending December 31, 1908—

Dr.			Cr.		
	£	s. d.		£	s. d.
To Balance at January 1, 1908.....	2,000	0 0	By Salaries	600	0 0
„ Receipts from W. F. Fowle	7,850	0 0	„ Wages	740	0 0
„ Receipts from M. Pilkington	5,650	0 0	„ Bills Payable.....	3,660	0 0
„ Bills Receivable.....	4,500	0 0	„ Payments to A. Willing	4,850	0 0
			„ Payments to B. Glover	2,500	0 0
			„ General Office Expenses	400	0 0
			„ Drawings, C. F. Richardson	750	0 0
			„ Drawings, G. Pickford	750	0 0
			„ Balance at December 31, 1908.....	5,750	0 0
	£20,000	0 0		£20,000	0 0

Post the whole of the above items to their respective Ledger accounts.

The following are the remaining transactions for the year ending

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December 31, 1908, which enter in their respective Day Books or Journal and post to the Ledger accounts—

	£	s.	d.
Purchases from A. Willing	12,000	0	0
Purchases from B. Glover	3,000	0	0
Discount allowed by A. Willing	50	0	0
Sales to W. F. Fowle	12,550	0	0
Sales to M. Pilkington	6,450	0	0
Discount allowed to W. F. Fowle	100	0	0
Bills Receivable from W. F. Fowle	4,550	0	0
Bills Payable accepted for A. Willing	7,750	0	0
Stock of Goods at December 31, 1908	3,500	0	0

At December 31, 1908, write off Depreciation on Plant and Machinery, £200, and provide Reserves for—

Land and Buildings	£150
Discounts on Debtors	£100

Take out a Trial Balance of the Ledger balances and afterwards prepare a Profit and Loss Account and Balance Sheet at December 31, 1908. Divide the profit equally between the two partners.

[40 marks.]

3. Journalize in tabular form the following sales, placing all the impersonal items under their respective separate accounts—

W. Wills & Co.	£	s.	d.
For Goods	650	0	0
Brokerage	12	0	0
Insurance	3	0	0
Freight	12	0	0
Other Charges	3	0	0

W. Jones & Co.			
For Goods	1,000	0	0
Commission	20	0	0
Freight	10	0	0
Charges	5	0	0

	1,035	0	0
Less Interest	20	0	0

£1,015 0 0

A. Basden & Co.			
For Goods	500	0	0
Commission	10	0	0

	510	0	0
Less Interest	15	0	0

£495 0 0

[10 marks.]

4. The following is the Trial Balance of Messrs. Jones and Colville at December 31, 1908—

	£	s.	d.	£	s.	d.
Bills Payable				700	0	0
Land and Buildings	7,000	0	0			
Work in Progress at December 31, 1908	2,500	0	0			
Received on account of Work in Progress to December 31, 1908				1,500	0	0
Stock of Goods at January 1, 1908	4,000	0	0			
F. Jones, Capital				10,000	0	0
G. Colville, Capital				5,000	0	0
Plant and Machinery	5,600	0	0			
Bills Receivable	1,500	0	0			
Purchases	13,000	0	0			
Sales				22,000	0	0
Wages	3,500	0	0			
Salaries	570	0	0			
Rates and Taxes	200	0	0			
General Office Expenses	500	0	0			
Partners' Salaries	800	0	0			
Furniture and Fixtures	300	0	0			
Cash at Bank	230	0	0			
Discounts	500	0	0			
Creditors				1,000	0	0
	£40,200	0	0	40,200	0	0

Stock of Goods at December 31, 1908, £6,470.

Prepare Profit and Loss and Balance Sheet at December 31, 1908, dividing the profit two-thirds to F. Jones and one-third to G. Colville, but before dividing the profit write off $7\frac{1}{2}$ per cent. Depreciation from Plant and Machinery and create a Reserve of 5 per cent. on Land and Buildings. [15 marks.]

5. A. McCall sold Goods to M. Segoin on July 1, 1908, amounting to £200. With the Invoice Mr. McCall sent Mr. Segoin a Bill for acceptance dated July 1, 1908, for £200 at 3 months, which Mr. Segoin accepted. On July 4 Mr. McCall discounted the Bill with his Bankers, receiving credit in his Pass Book for £200 and was charged £5 for Discount.

On October 1, 1908, Mr. McCall received from Mr. Segoin a cheque for £105, representing £100 on account of the Bill and £5 for Interest, and a further Bill for £100 at 3 months dated October 1, 1908. Mr. McCall paid the cheque into the Bank but did not discount the Bill.

On October 4, 1908, Mr. McCall handed to Mr. Segoin a cheque for £200 to meet the Bill then due.

On January 1, 1909, Mr. McCall paid the Bill for £100 into his Banking Account for collection, and this was duly met by Mr. Segoin.

Make the necessary entries in A. McCall's Journal and Cash Book, posting them into the Ledger. [15 marks.]

6. Explain the meaning of the terms "Fixed and Floating

Assets," also explain how you would arrive at the value to be placed upon the Goodwill of a Business for Balance Sheet purposes. [10 marks.]

7. At December 31, 1908, the Balances as per Cash Book and Bank Pass Book are as follows—

Bank Overdraft, as per Cash Book . . .	£240
Cash at Bank, as per Cash Book . . .	£78

Explain the probable cause of the difference between the two books, and make a Reconciliation Statement illustrating your answer. [5 marks.]

8. Should a book-keeper in preparing a Balance Sheet of a trading concern show as a Liability Bills Receivable under Discount with the Bankers: if so, show the entry you would make in the Balance Sheet. [5 marks.]

9. In the case of a manufacturer, which items of Income and Expenditure should be included in the Manufacturing Account and which in the Profit and Loss Account? [5 marks.]

10. Explain what is meant by balancing on the Total System, and give specimen entries in a Debtor's Total Account. [5 marks.]

INSTITUTE OF BANKERS.

PRELIMINARY PAPER, April 1910.

[2 hours allowed.]

NOTE.—Seven only out of the following *ten* questions are to be attempted. The number of marks assigned to each question is given in the brackets at the end of it.

DEFINITION AND GENERAL PRINCIPLES.

1. Enter the following transactions in the necessary Account Books of E. Harper, post the Ledger Accounts and prepare Trial Balance.

- (a) October 21, 1909. Purchased from A. C. Gurney, goods costing £550, paying for the same before delivery less 5 per cent. discount by cheque on my Bankers.
- (b) October 23, 1900. Sold J. Jones goods to the value of £150, receiving a Bill of Exchange at 3 months for a like amount in payment.
- (c) October 25, 1909. Returned portion of goods to A. C. Gurney to the value of £50, the same not being according to sample.
- (d) October 31, 1909. Discounted J. Jones's Bill with my Bankers, the discount charged by the Bankers being £2.
- (e) November 7, 1909. Sold for Cash to M. Barr, goods to the value of £75.
- (f) December 8, 1909. Sold W. Watson goods to the value of £340 on monthly account, which, less £15 discount, was settled by cheque and paid into the Bank on December 31, 1909. [20 marks.]

2. Explain what effect the following mistakes would have on the accounts of a business—

- (a) A receipt from a Creditor of £240 entered in the Cash Book and posted as £200.
- (b) A payment for expenses of £160 entered in the Cash Book and posted as £120.
- (c) A credit sale of goods of £300 debited to Expenses Account in the Ledger instead of the Customer's Account.
- (d) A Cash sale of goods amounting to £29 10s. was credited to a Customer's Personal Ledger Account instead of to Cash Sales Ledger Account. [15 marks.]

3. G. Garrick of London sold to James Smith of Leeds the following—

1909.		£	s.	d.
Oct. 14.	Goods	60	0	0
Nov. 16.	Goods	50	0	0
Nov. 30.	Goods	75	0	0

On November 16 James Smith paid £100 on account, and on December 31 gave a Bill Payable for £80 in settlement, the difference being discount.

- (a) Prepare an invoice for the goods sold on October 14, 1909.
- (b) Render a Statement of Account on December 31, 1909, for the whole of the transactions. [10 marks.]

4. The following figures are all Balance Sheet items, from which prepare the Balance Sheet of Messrs. A. Lloyd & Co., Ltd., showing the financial position at December 31, 1909—

Capital, 1,000 Shares £10 each	£10,000
Calls in arrear	100
Stock	6,000
Cash in hand	100
Bank overdraft	2,500
Work in progress	2,000
Consignments	5,000
Advances received on Consignments	4,000
Furniture and Fixtures	500
Bills Receivable	800
Bills Payable	1,000
Debtors	8,500
Creditors	5,500

[15 marks.]

5. The following figures are all Trading and Profit and Loss items, from which prepare Trading and Profit and Loss Accounts for six months to December 31, 1909, showing the Gross and Net Profits or loss—

Purchases	£12,500
Rent, Rates, Taxes and Insurance paid	1,250
Rent and Interest received	200
Stock at December 31, 1909	6,000
Commission paid	240
Travelling Expenses	660

Directors' Fees	£400
Salaries and Wages	2,300
Law Costs	50
Sales	25,000
Stock at July 1, 1909	4,000
Depreciation	250
	[15 marks.]

6. June 30, 1909. Consigned from Stock to A. Dugard to be sold by him on our account 1,000 tons of Coal, costing 8s. per ton, £400.

July 1, 1909. Paid Carriage, Freight and Charges thereon, £350.

August 31, 1909. Received from A. Dugard an Account Sales showing the net amount realized was £960 accompanied by a Bill of Exchange at 60 days' sight for the amount realized.

Enter the above transactions in the Journal and Cash Book, and post to the Ledger, showing the Profit or Loss on the Consignment.

[15 marks.]

7. Rule a form of Bills Payable Book and enter particulars of two Bills therein.

[10 marks.]

8. Rule a form of Cash Book with Discount, Cash and Bank columns, enter therein six items of Receipts, and six of Payments, showing how you would deal with payments into and withdrawals from the Bank, Bills Receivable discounted, Bills Payable matured and Cash discount.

[10 marks.]

9. If on taking out a Trial Balance of Books, the total debits exceeded the credits by £9 11s. 10d. what course of procedure would you adopt to discover the error or errors.

[10 marks.]

10. Explain the meaning of the following terms—

(a) Difference in Exchange.

(b) Goodwill.

(c) Depreciation.

(d) Sinking Fund.

[10 marks.]

INSTITUTE OF BANKERS.

FINAL PAPER, April 1910.

[2 hours allowed.]

NOTE.—Seven only out of the following ten questions are to be attempted. The number of marks assigned to each question is given in brackets at the end of it.

DOUBLE ENTRY: ELUCIDATION AND EXPLANATION.

1. On January 1, 1909, the Estate of John Harding consisted of the following Assets—

	£	s.	d.
(a) £40,000 London & North Western Railway			
3 per cent. Debenture Stock at 90 per cent.	36,000	0	0
(b) Mortgage on Freehold Property at 4 per cent.	20,000	0	0
(c) Freehold Property of the estimated value of	55,000	0	0
(d) Cash at Bankers	2,500	0	0

Make the necessary opening Journal entries, posting the same to their respective Ledger Accounts.

From the following particulars write up the Journal and Cash Book (ignoring Income Tax) for the year.

- (a) On January 15, 1909, and July 15, 1909, respectively, a half-year's interest is payable and duly received on the £40,000 London & North Western Railway 3 per cent. Debenture Stock.
- (b) On June 30, 1909, and December 31 1909, respectively, a half-year's interest is payable and duly received on the £20,000 4 per cent. Mortgage on the Freehold Property.
- (c) J. Hampton & Sons are the Agents for the Freehold Property. After deducting outgoings the Agents have remitted to J. Harding the following amounts—

	1909.	£	s.	d.
Feb. 19.	Cash	300	0	0
Apr. 21.	Cash	550	0	0
June 30.	Cash	200	0	0
Oct. 31.	Cash	450	0	0
Dec. 31.	Cash	500	0	0

There were no rents in arrear either at the commencement or end of year and all receipts were duly paid into the Bank.

(d) The payments by cheque are as follows—

1. Annuity of £200 to Ann Smith payable £50 per quarter, viz., March 25, June 24, September 29, December 25, 1909.
2. On June 30, 1909, paid Travelling and other expenses £70, Law Charges £150.

	£	s.	d.
3. On December 10, 1909, purchased through N. Willis, £2,000 Consols at 82½ per cent.	1,650	0	0
Brokerage and Contract Stamp	2	11	0
	<u>£1,652</u>	<u>11</u>	<u>0</u>

Paid for the purchase on December 24, 1909.

4. John Harding has withdrawn during the year the following amounts for Personal and Household Expenses—

	£
June 30. Cheque	1,500
Dec. 31. Cheque	2,000

Post the whole of the above to the necessary Ledger Accounts and prepare a Balance Sheet and Income Account. [25 marks.]

2. Enter the following transactions of W. Dunlop in the Day Books, Journal and Cash Book, and post them to their respective Ledger Accounts, showing clearly the Profit or Loss on the Sale by Auction.

April 30, 1909. Goods to the value of £1,500 were forwarded to M. Cavill by W. Dunlop for Sale by Auction.

May 15, 1909. M. Cavill sold the above goods by Auction for £1,750, for which an account was rendered, less 2½ per cent. Commission £43 15s., and expenses of advertising Sale £24 5s.

May 15, 1909. W. Seale attended the Sale on the instructions of W. Dunlop and bought in all the lots not reaching a certain figure. Goods to the value of £325 were thus bought, and W. Seale charged £5 for attending the Sale. These goods were duly returned to W. Dunlop and taken into Stock at the value of £275.

May 16, 1909. M. Cavill remitted the proceeds of Sale as follows—

Cheque which W. Dunlop duly paid into his	£
Bank Account	1,400
W. Brown's Bill dated May 15, 1909, at two months' date	272
May 18, 1909. W. Dunlop forwarded to W. Seale a cheque for £330.	[15 marks.]

3. Dombe & Son, of Bombay, the Agents of Knox & Co., London, advise their principals that the net Profits for the six months ended June 30, 1909, amount to Rupees 300,000, of which they remitted the following sums—

		s.	d.
May 6.	Rs. 100,000 @ 1	4	$\frac{1}{8}$
July 29.	100,000 @ 1	4	$\frac{1}{2}$
Aug. 26.	100,000 @ 1	3	$\frac{1}{4}$

Messrs. Knox & Co. calculate the Exchange at the uniform rate of 1s. 4d. to the rupee and write off any differences to Exchange Account.

Write up Knox & Co.'s Cash Book, Journal and Ledger showing Dombe & Son's Account, Profit and Loss Account and Exchange Account (writing off any Balance to Profit and Loss). [15 marks.]

4. The following is the Trial Balance of the Institute Bank, Ltd., at December 31, 1909—

	£	£
Subscribed Capital 50,000 Shares, £20 each,		
on which £10 per Share is paid up . . .		500,000
Reserve Fund (invested in Consols) . . .		360,000
Loans and Advances	1,500,000	
Bank Premises	100,000	
£450,000 Consols at 80 per cent. (Reserve		
Fund Investment)	360,000	
British Government Securities	540,000	
Current and Deposit Accounts		3,400,000
General Expenses, Directors' Fees, Salaries		
and Rent	35,000	
Pension Fund Account		50,000
Depreciation of Premises	10,000	
Profit undivided at January 1, 1909 . . .		16,000
Interest Account (Balance at Credit for un-		
expired period of Bills discounted) . . .		15,000
Interest, Discount, &c., Account		20,000
Money at Call and short notice	160,000	
Income Tax paid	2,500	
Bills discounted	420,000	
Interim Dividend paid July 31, 1909 . . .	30,000	
Colonial Securities	500,500	
Cash in hand and at Bank of England . .	803,000	
	<u>£4,461,000</u>	<u>£4,461,000</u>

Prepare a Balance Sheet and a Profit and Loss Account.

[15 marks.]

5. On December 1, 1909, W. Simmons, Stockbroker, purchased, on behalf of his client, E. Hoskins, from A. Black & Co., Jobbers, £13,000 Midland Railway 2½ per cent. Preference Stock. A copy of the Bought note sent to E. Hoskins is as follows—

	£	s.	d.
£13,000 Midland Railway 2½ per cent. Preference			
Stock at 75 per cent.	9,750	0	0
Brokerage ¼ per cent.	32	10	0
Transfer Stamp	48	15	0
Contract Stamp	0	1	0
Transfer Fee	0	2	6
	<u>£9,831</u>	<u>8</u>	<u>6</u>

E. Hoskins, on December 12, 1909, forwarded a cheque for £9,831 8s. 6d. to W. Simmons in payment, and on December 14, A. Black & Co. received payment for the Stock purchased.

Enter the above transaction in W. Simmons' Journal, Cash Book and Ledger, showing the necessary Personal and Impersonal Accounts with E. Hoskins and A. Black & Co. [15 marks.]

6. Rule a tabular form of Rental Book or Rental Ledger with the requisite columns showing arrears brought forward, rental, allowances, date, and amount received, with any arrears carried forward, and make two entries therein to show the working.

[10 marks.]

7. The transactions of a large trader being so numerous it is decided in future to balance separately each of the Bought and Sold Ledgers. What method would you adopt to carry out the above?

[10 marks.]

8. A Trading firm have effected Policies of Assurance on the lives of certain of the Partners and Managers. Should the Premiums on such Policies be shown as an Asset on the Balance Sheet or debited to the Profit and Loss Account? Give the reason for your answer.

[5 marks.]

9. The Liabilities appear on the debit side and the Assets on the credit side of the Balance Sheet. In the Ledger the reverse is the case. Explain the reason for the above.

[7 marks.]

10. In a Manufacturing business what class of Salaries and Wages should be charged against the cost of manufacture and what against the Profit and Loss Account?

[5 marks.]

INSTITUTE OF BANKERS.

PRELIMINARY PAPER, April, 1911.

[2 hours allowed.]

NOTE.—Seven only out of the following ten questions are to be attempted. The number of marks assigned to each question is given after it in brackets.

DEFINITION AND GENERAL PRINCIPLES.

1. Journalize the following Purchases and Sales and post them to Ledger Accounts—

860 BOOK-KEEPING AND ACCOUNTS

1910.		£	s.	d.	£	s.	d.
Jan. 13.	Purchased of Pickford Bros., Silks				200	0	0
„ 15.	Purchased of J. Gibbs, Woollen Goods				167	10	0
„ 18.	Sold W. Hamilton— Silks	75	0	0			
	Woollen Goods	10	0	0			
					85	0	0
„ 19.	Purchased of W. Jones, Cotton Goods				300	0	0
	Sold B. Smith— Cotton Goods	90	0	0			
	Silks	24	0	0			
	Woollen Goods	45	0	0			
					159	0	0

[17 marks.]

2. C. E. Fox commences business on January 1, 1910. The following are the Assets and Liabilities of C. E. Fox—	£	s.	d.
<i>Assets.</i> Plant and Machinery	500	0	0
Stock in Trade	2,000	0	0
Bills Receivable	100	0	0
Cash at Bankers	1,400	0	0
<i>Liabilities.</i> Due to C. Holt	500	0	0
Bills Payable	400	0	0

Make the necessary opening entries and post them to the Ledger, showing at the same time Mr. C. E. Fox's Capital. [15 marks.]

	£	s.	d.
3. A. Berrill buys from R. Billing, 10 tons of Copper at £57 per ton	570	0	0
5 per cent. discount to be allowed	28	10	0
A. Berrill sells to R. Billing 2 tons of Tin at £190 per ton	380	0	0
10 per cent. discount to be allowed	38	0	0
A. Berrill accepted R. Billing's Bill at 4 months' date for	199	10	0

Make the necessary Day Book and Journal entries and post to the Ledger, (a) In the Books of A. Berrill. (b) In the Books of R. Billing. [15 marks.]

4. The following is the Trial Balance of the Books of G. Whitby, at December 31, 1910—	£	s.	d.	£	s.	d.
Creditors				4,300	0	0
Purchases	9,500	0	0			
Sales				15,050	0	0
Salaries and Wages	2,000	0	0			
Debtors	6,000	0	0			
G. Whitby's Capital				5,000	0	0
Furniture and Fixtures	400	0	0			
Rent, Rates and Taxes	1,600	0	0			
Stock at January 1, 1910	3,500	0	0			
Repairs	100	0	0			
Discount and Allowances	400	0	0			
General Expenses	350	0	0			
Cash at Bankers	500	0	0			
	£24,350	0	0	£24,350	0	0

The value of the Stock at December 31, 1910, was £3,000.

Prepare the Balance Sheet and Profit and Loss Account of G. Whitby at December 31, 1910. [18 marks.]

5. Rule a form of Petty Cash Book on the tabular system with special columns for Commissions, Wages, Postages, Travelling Expenses and Sundries. Enter the following receipts and payments in your Petty Cash Book—

		£	s.	d.
Jan.	1.	Received from Cashier	25	0 0
		Paid A. L. Harris for Travelling Expenses	2	0 0
	2.	„ H. Brown for Commission	0	15 0
		„ for Postage Stamps	0	10 0
	6.	„ E. Warner, Wages	2	10 0
		„ G. Paton, Commission	3	0 0
		„ Cartage	0	6 0

Balance the Petty Cash Book and carry down the balance in hand. [10 marks.]

6. Name the principal Books to be kept in a Merchant's Counting House and describe the use of each. [15 marks.]

7. How is a Trial Balance prepared? If both columns agree does this prove anything?

What is the difference between a Trial Balance and a Balance Sheet? [12 marks.]

8. On which side, debit or credit, are the receipts and payments respectively entered in the Cash Book?

On which side of the Ledger would the receipts and payments respectively be posted, viz. debit or credit? Explain the reason for your answer. [8 marks.]

9. On which side of a Trader's Ledger, debit or credit, should the balances be of the following accounts?—

- (a) Bills Receivable.
- (b) Bills Payable Account.
- (c) Capital.
- (d) Plant and Machinery.
- (e) Bank Loan Account. [8 marks.]

10. Explain the following terms—

- (a) Capital.
- (b) Liabilities.
- (c) Assets.
- (d) Depreciation Fund. [10 marks.]

INSTITUTE OF BANKERS.

FINAL PAPER, April 1911.

[2 hours allowed.]

NOTE.—Seven only out of the following ten questions are to be attempted. The seven selected questions must include at least two of the first four questions. The number of marks assigned to each question is given after it in brackets.

DOUBLE ENTRY : ELUCIDATION AND EXPLANATION.

1. J. Williams and A. Jones dissolve partnership at December 31, 1910, when the Ledger Balances are as follows—

	£	s.	d.	£	s.	d.
J. Williams, Capital Account				5,000	0	0
A. Jones, " " " "				6,000	0	0
Debtors	6,000	0	0			
Property, Plant and Machinery	2,800	0	0			
Cash at Bank	3,200	0	0			
Creditors				7,000	0	0
Stock	8,000	0	0			
Profit and Loss Account				2,000	0	0
	<u>£20,000</u>			<u>£20,000</u>		
	0 0			0 0		

Open Ledger Accounts for the above except for the Cash, which enter in the Cash Book.

- (a) Credit the following amounts to the partners for Interest on Capital, debiting Profit and Loss Account therewith—

	£	s.	d.
J. Williams	250	0	0
A. Jones	300	0	0

- (b) J. Williams purchases the Property, Plant and Machinery for £2,500, giving his cheque for the amount, which was duly paid into the Banking Account. The balance of £300 on Property Account must be written off to Profit and Loss Account.
- (c) Collected from Debtors £5,500, paid into the Banking Account, £250 being allowed for Discount and £250 being a Bad Debt.
- (d) The Creditors were paid by cheques £6,600, and they allowed Discount in all amounting to £400.
- (e) The Stock was taken over equally by J. Williams and A. Jones, £4,000 being debited to each Capital Account in respect of it.
- (f) The credit of Profit and Loss Account must be divided equally between the two partners.

Make the necessary Journal, Cash Book and Ledger entries as at December 31, 1910, and show the Balance due to each partner on the one hand, and on the other hand the Cash Balance at the Bank.

[25 marks.]

2. W. Ambrose transfers his business into a Limited Company, the Assets and Liabilities transferred being as follows—

<i>Assets—</i>		£	s.	d.	£	s.	d.
Freehold Land and Buildings		76,000	0	0			
Leasehold " "		40,000	0	0			
Plant and Machinery		15,500	0	0			
Debtors		270,000	0	0			
Investments		10,000	0	0			
Cash at Bankers		40,000	0	0			
		<u>451,500</u>			451,500	0	0
<i>Liabilities—</i>							
Creditors on Open Account		140,000	0	0			
Bills Payable		11,500	0	0			
		<u>151,500</u>			151,500	0	0

W. Ambrose receives in satisfaction of the Purchase price the following fully paid Shares and Debentures—

	£	s.	d.
1,000 4 per cent. Debentures of £100 each	100,000	0	0
10,000 5 per cent. Preference Shares of £10 each	100,000	0	0
10,000 Ordinary Shares of £10 each	100,000	0	0

Make the necessary opening entries in the Books of the Company, post them to the Ledger and prepare a Balance Sheet. [20 marks.]

3. Enter in the respective Day Books, Journal or Cash Book, the following transactions of W. Holt, post them to the Ledger and prepare a Balance Sheet and Profit and Loss Account—

1910.

Jan. 1. W. Holt commenced business with the following Assets, which constituted his Capital—

	£	s.	d.	£	s.	d.
Cash at Bank	2,000	0	0			
and Bills Receivable due Feb. 1, 1910	500	0	0			
				2,500	0	0
„ 4. Purchased Goods of E. Whitehouse	1,500	0	0			
and of A. Tweedie	650	0	0			
				2,150	0	0
„ 9. Paid A. Tweedie a cheque on account				300	0	0
and for Furniture and Fix- tures, by cheque				100	0	0
„ 15. Sold to E. Meissner, Goods				2,000	0	0
„ 16. Settled E. Whitehouse's account for	1,500	0	0			
Less, Discount allowed at 5 per cent.	75	0	0			
By a Cheque for				1,425	0	0
„ 19. Purchased Goods of E. Whitehouse				2,000	0	0
„ 20. Sold M. Jones, Goods				1,850	0	0
„ 23. Received from M. Jones in settlement— Cheque	1,000	0	0			
Bill at 3 months	800	0	0			
And allowed Discount	50	0	0			
				1,850	0	0
„ 31. Paid the following Expenses for the month of January— Rent	50	0	0			
Salaries and Wages	200	0	0			
Carriage and Office Dis- bursements	100	0	0			
				350	0	0
W. Holt withdrew for his personal use				150	0	0
His Stock of Goods at the end of the month was				1,250	0	0
						[20 marks.]

4. Enter the following transactions of G. Carrick in the Journal and Cash Book and post them to the Ledger—

	£	s.	d.
(a) Purchased on November 1, 1910, from Ellistown Collieries, 800 tons of Coal at 6s. per ton	240	0	0
(b) Carriage thereon, Midland Railway, 5s. per ton	200	0	0
(c) The Ellistown Collieries on December 31, 1910, received payment as follows—			
By Cheque	94	0	0
allowing Discount	6	0	0
By Bill at 3 months' date drawn on December 31, 1910	140	0	0
(d) December 31, 1910, Paid Midland Railway cheque for Carriage	200	0	0

[10 marks.]

5. State your opinions on the following points which would arise when preparing the annual Balance Sheet of a Bank having Foreign Branches—

- (1) At what rate should the currency figures of the Balance Sheet and Profit and Loss Account be converted into sterling?
- (2) Would the same rate of Exchange apply to both floating and fixed Assets and Liabilities?
- (3) How should any difference in Exchange on conversion be dealt with?
- (4) Upon the London balance in a Branch Account being converted into sterling does the sterling figure agree with the Branch balance in the London Books? If it does not agree state the probable cause for any difference.

[12 marks.]

6. The stock of a Manufacturer at December 31, 1910, is made up as follows—

	£
(a) Work in Progress on Contracts, Cost to date . . .	1,750
(b) Goods in various stages of manufacture for Stock purposes. Actual cost	850
(c) Finished Goods for Stock Purposes, Actual cost . . .	4,250

On what basis should the above Stocks be valued for Balance Sheet purposes? Should any Profit be added to the Cost, and, if so, what proportion? In case part of the Stock is out of date, how should it be valued?

Make the necessary Journal entry incorporating the above Stocks in the Books as at December 31, 1910. [10 marks.]

7. Before finally closing the Books of a Firm and preparing the Balance Sheet and Profit and Loss Account, on what principle should amounts be written off to the debit of Profit and Loss Account in the following cases—

- (a) On Leasehold Properties.
- (b) On Plant and Machinery.
- (c) On Book Debts, some of which may be doubtful.
- (d) On an unsettled Action against the firm for compensation for a considerable sum where it is admitted that damages will probably have to be paid. [8 marks.]

8. Give the ruling of a tabular form of Cash Book adapted for the purpose of saving labour in posting to the Ledger, for use in Hospital Accounts. [8 marks.]

9. In preparing a Balance Sheet and Profit and Loss Account at June 30, 1910, make the necessary Journal entries in connection with the following items—

- (1) Fire Insurance premium amounting to £120 paid March 25, 1910, for the year ending March 25, 1911.
- (2) Rent of Factory for quarter ending June 24, 1910, £250, not paid until August 1, 1910. [5 marks.]

10. Define the differences between the following—

- (a) Consignments and Sales.
- (b) Reserve and Reserve Fund.
- (c) Journal and Day Book. [5 marks.]

CHARTERED INSTITUTE OF SECRETARIES.

INTERMEDIATE AND FINAL EXAMINATIONS, December 1908.

[2 hours allowed.]

Candidates for the Intermediate are to answer the ten questions marked "I." Candidates for the Final are to answer the ten questions marked "F." No marks will be given for answers to any other questions.

I. 1. State shortly what you understand by the terms "Debit" and "Credit" in accounts.

I. 2. The following is the Trial Balance of the West End Flats Company, Ltd., for the year ended September 30, 1908. You are required to prepare therefrom the Company's Profit and Loss Account and Balance Sheet.

TRIAL BALANCE, September 30, 1908.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Bank	800	0	0			
Rents				4,000	0	0
Sundry Debtors	1,000	0	0			
Sundry Creditors				150	0	0
Freehold Buildings	49,000	0	0			
Rates and Taxes	1,000	0	0			
Depreciation	150	0	0			
Office Salaries and Expenses	750	0	0			
Repairs, etc.	250	0	0			
Share Capital				20,000	0	0
4 per cent. Debentures				30,000	0	0
Interest	1,200	0	0			
	£54,150	0	0	£54,150	0	0

I. 3. What are books of first-entry, and what is the advantage of employing such books in addition to Ledgers?

I. 4. A., a West-end shopkeeper, who commenced business on January 1, 1905, decided to make provision for Bad and Doubtful Debts by setting aside 5 per cent. on his annual sales as a reserve. For the first three years his sales were £10,000, £14,000, and £18,000 respectively. When balancing his books on December 31, 1905, he

found it necessary to write off debts amounting to £250 as absolutely bad, and in 1906 and 1907 he wrote off £450 and £700 respectively. Write up the Reserve for Doubtful Debts Account for the three years.

I. 5. F. When closing the books of a manufacturing business on June 30, 1908, you are instructed to provide for Depreciation as follows: 2 per cent. off Freehold Land and Buildings standing at £38,000, $7\frac{1}{2}$ per cent. off Plant and Machinery standing at £162,500, 10 per cent. off Loose Tools standing at £2,380. Show the Journal entries necessary to carry out these instructions.

I. 6. F. A. purchased from B. on three different dates goods to the value of £30, £80 and £50. B. drew upon A. for £160 at three months. A. accepted the Bill, and it was duly met at maturity. You are required to show the Ledger Accounts in A.'s books affected by these transactions.

I. 7. F. Taking the facts as stated in the preceding question, show the *pro forma* Acceptance, stating the stamp payable thereon, and give a *pro forma* ruling of a Bills Receivable Book.

I. 8. F. Is a Reserve Fund an Asset or a Liability? Give reasons for your answer.

I. 9. F. A. and B. are partners. A.'s Capital is £5,000, and B.'s £3,000. Each is entitled to receive interest on his Capital at 5 per cent. per annum, and subject thereto A. is to receive two-thirds and B. one-third of the annual profits. For the year ended June 30, 1908, the Profit and Loss Account, before charging interest on Capital, showed a Credit balance of £2,468. Show in the form of Journal entries how this should be divided between them.

I. 10. F. What do you understand by "Gross Profit"? Give a *pro forma* Trading Account of a merchant's business, with figures, showing a gross profit of 20 per cent. upon the Sales.

11. F. From the following Trial Balance of the A. B. Manufacturing Company, Ltd., for the year ended September 30, 1908, prepare Trading Account, Profit and Loss Account and Balance Sheet, after providing a Reserve of £300 for Doubtful Debts, and for Depreciation of Plant and Machinery at 10 per cent. per annum.

TRIAL BALANCE, September 30, 1908.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Sales				98,000	0	0
Materials Purchased	64,000	0	0			
General Expenses	3,500	0	0			
Repairs	3,000	0	0			
Returns	600	0	0			
Fuel consumed	4,800	0	0			
Lighting	300	0	0			
Trade Creditors				4,000	0	0
Plant and Machinery	28,000	0	0			
Wages	12,400	0	0			
Land and Buildings	15,200	0	0			
Salaries	1,000	0	0			
Trade Debtors	7,500	0	0			
Bank	4,100	0	0			
Transfer Fees				100	0	0
Stock on October 1, 1907—						
Materials	9,000	0	0			
Finished Goods	16,000	0	0			
Stores	200	0	0			

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Rent, Rates and Taxes	1,200	0	0			
Share Capital (4,000 Shares of £20 each)				80,000	0	0
Bad Debts	500	0	0			
Stores Purchased	800	0	0			
Interim Dividend paid April 30, 1908	8,000	0	0			
	<u>£180,100</u>	<u>0</u>	<u>0</u>	<u>£180,100</u>	<u>0</u>	<u>0</u>

The Stock on hand on September 30, 1908, was—

	£	s.	d.
Raw Materials	16,500	0	0
Finished Goods	15,000	0	0
Stores	250	0	0

12. F. Define "Depreciation," and state when (if ever) it is unnecessary to make provision for the depreciation of Wasting Assets.

13. F. In the case of a trading business having numerous branches at home and abroad, many of which have mutual communications, it necessarily follows that, owing to the time occupied in transit, there will be differences of dates in each branch's record of inter-branch transactions. How would you deal with these matters when preparing the Balance Sheet and Profit and Loss Account of the business as a whole?

14. F. State in general terms how you would ascertain the Net Profit earned by a Company. Under what circumstances, if any, may a Company legally pay a dividend to its shareholders although its operations for the past year have resulted in loss?

CHARTERED INSTITUTE OF SECRETARIES.

INTERMEDIATE AND FINAL EXAMINATIONS, June 1909.

[2 hours allowed.]

Candidates for the Intermediate are to answer the ten questions marked "I." Candidates for the Final are to answer the ten questions marked "F." No marks will be given for answers to any other questions.

I. 1. State, as concisely as you can, the precise difference between Single and Double Entry Book-keeping.

I. 2. Define (a) Nominal Accounts,
(b) Debit Balances,
(c) Trial Balance.

I. 3. What is a Suspense Account? Give an example of one, with two or three entries on each side.

I. 4. A. sold B. goods to the value of £100, and drew upon B. for that amount at three months. A. subsequently discounted the Bill with his bankers, who charged him £2 for the accommodation. The Bill was duly met by B. at maturity. You are required to show (a) the above transactions as they would appear in A.'s Ledger, (b) *pro forma* Journal entries in B.'s books relative to the above.

I. 5. F. On January 1, 1909, B. joined A. in partnership, bringing in a capital of £1,000 in cash. On that date A.'s financial position was agreed between the parties as follows—

	£	s.	d.
Stock	1,500	0	0
Debtors	700	0	0
Cash	50	0	0
Creditors	1,250	0	0

Show *pro formâ* Journal entries to open the books of the partnership, and the Balance Sheet of the firm as it would appear on January 1, 1909.

I. 6. F. From the following Trial Balance prepare Balance Sheet and Profit and Loss Account of the Motor Supplies Company, Ltd.—

TRIAL BALANCE, March 31, 1909.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Capital				12,000	0	0
Gross Profit				5,000	0	0
Rent	400	0	0			
Discounts				100	0	0
Bad Debts	250	0	0			
Commissions				400	0	0
Business Premises	2,000	0	0			
Stock, March 31, 1909	3,500	0	0			
Furniture and Fittings	500	0	0			
Plant and Machinery	2,000	0	0			
Creditors				1,000	0	0
Debtors	8,000	0	0			
Bills Receivable	2,000	0	0			
Bills Payable				1,500	0	0
Bank	1,000	0	0			
Depreciation	350	0	0			
	<u>£20,000 0 0</u>			<u>£20,000 0 0</u>		

I. 7. F. State what you consider to be the advantages of having several books of first-entry, instead of passing all transactions through the Journal, and under what circumstances you consider the retention of the old-fashioned Journal a convenience.

I. 8. F. Make Journal entries in respect of the following adjustments on the closing of a set of books on March 31 last: (a) Bad Debts Reserve to be increased by £500. (b) A Reserve of $2\frac{1}{2}$ per cent. for cash discounts to be made on Debtors' accounts totalling £10,000, and Creditors' accounts totalling £5,000.

I. 9. F. State why it is that a Bank Pass Book rarely shows exactly the same balance as the Cash Book. Give a *pro formâ* Reconciliation Account, showing how the accuracy of the Cash Book balance may be verified from the Pass Book.

I. 10. F. On January 1, 1909, X. consigned to Y. goods of the *pro formâ* value of £1,000. X.'s expenses in connection with the consignment were £20. On April 1 X. received from Y. his Account Sales dated March 12, showing that the whole of the consignment had been sold, and had realized £1,300 gross; that Y.'s expenses were £50, and his commission $2\frac{1}{2}$ per cent. At the same time Y. remitted to X. a Bill drawn on Z. for the balance due, payable 10 days after sight. You are required to show the accounts in X.'s Ledger affected by these transactions, and give the form of the Bill, assuming it to have been accepted by Z.

4. You have before you the books of a merchant; where would you look for the following information?—

- (a) The total of Discounts allowed during the month of September 1910.
- (b) The Balance at the Bank on the same date.
- (c) The amount of Bills Receivable in hand at the date of your inspection.

5. On January 1, 1910, A. consigned to B. 5,000 tons of Tin valued *pro forma* at £125 per ton, at the same time drawing on B. for £600,000 at 15 days after sight. B. accepted the Bill on March 13, 1910, and duly paid it on maturity. On April 20, 1910, B. forwarded to A. an Account Sales, showing that he had sold 2,000 tons at £127 10s., 1,500 tons at £130, and 1,500 tons at £125. B. paid freight at 50s. per ton and insurance £2,000, together with other expenses amounting to £240. After charging his commission at 3 per cent., B. forwarded to A. a Bill drawn on C. at sight for the balance of the amount due. You are required to show the necessary entries in B.'s Ledger to record these transactions.

6. Taking the facts stated in the preceding question, give the form of the two Bills therein referred to, and show the Bill Receivable Book of A. with the two Bills entered therein.

7. On looking through the List of Debtors prior to closing the books of X., a merchant, you find that the following accounts must be written off as bad: A. £20, B. £12. Also that a debt of £40 due from C. is doubtful, and that it is accordingly desirable to make a reserve of 50 per cent. thereon. There is a debit balance of £10 on D.'s account, which he disputes, and it is thought desirable to make a reserve for this also. Show the Journal entries necessary to effect these adjustments.

8. State what kinds of errors are not disclosed by a Trial Balance.

9. When closing a set of books, on what principle would you distinguish between the Ledger Balances that go into the Balance Sheet and those that should be transferred to Profit and Loss Account?

10. Give an example of a Trading Account for the year ended June 30, 1910, showing a Gross Profit of 20 per cent. on the Sales, and an increase of 20 per cent. in the value of the Stock in hand.

CHARTERED INSTITUTE OF SECRETARIES.

FINAL EXAMINATION, 1910.

[2 hours allowed.]

(Only eight questions to be attempted. Questions 6 and 9 are compulsory.)

1. On closing a set of books you find—

- (a) A debit balance of £200 on Bad Debts Account, and a credit balance of £350 on Reserve for Doubtful Debts Account. It is desired to increase the Reserve to a sum equal to 5 per cent. on the outstanding Debtors, which amount to £16,240.
- (b) The outstanding Debtors, as before stated, are £16,240, the outstanding Creditors are £14,000. It is desired to pro-

vide a Reserve for Discounts at $2\frac{1}{2}$ per cent. in each case. The Reserve for Discounts Account shows a credit balance of £205.

Make the necessary adjustments in the form of Journal entries, and show the Reserve for Doubtful Debts Account, and the Reserve for Discounts Account in the Ledger.

2. State exactly how you would record expenditure on renewals of Plant in the books of *any two* of the following undertakings—

- (a) A Gas or Railway Company.
- (b) The Electricity Department of a Local Authority.
- (c) An Engineering Firm.

3. Give an outline of a system of Cost Accounts suitable for *any one* of the following—

- (a) A Builder.
- (b) A Gold Mine.
- (c) A Match Factory.

4. Give the form of a Financial Return suitable for submission at a Board Meeting of any concern with which you are familiar.

5. A Company balances its books on December 31, in each year. On January 10, 1910, it paid Income Tax at 1s. 2d. in the £ on £2,400 profits in respect of the year 1909/10. For the year 1909 Interest on Debentures amounting to £1,000 was paid, subject to deduction of Income Tax; while the Preference Dividend for the year was £1,500, also subject to Tax. How would you deal with these items in the Company's accounts for 1909?

6. The West African Rubber Company, Limited, which was registered with a Capital of £100,000 divided into 1,000,000 shares of 2s. each, invited applications for its capital, payable 6d. per share on application, 1s. per share on allotment, and the remainder one month after allotment. On April 1, 1910, 1,200,000 shares were applied for, and the deposits thereon received. On April 6 following applications for 800,000 shares were accepted in full, while applicants for the remaining 400,000 shares were allotted half the number they had respectively applied for. The balance due on allotment was in each case received on the following day, and the final instalment was received on May 6, 1910. You are asked to show the record of the above transactions in the Company's Cash Book and Journal and in the following accounts in the Ledger—

- (a) Applications Account.
- (b) Allotment Account.
- (c) Call Account.
- (d) Share Capital Account.

7. Define the following terms—

- (a) Sinking Fund.
- (b) Unpaid Calls.
- (c) Debenture.

8. A Builder commenced business on January 1, 1900, with Plant valued at £1,000. On December 31, 1904, he spent a further £400 on additional Plant, and on December 31, 1908, an additional £500. Show how the Plant Account would appear in

his books up to December 31, 1909, if Depreciation had been written off at the rate of 6 per cent. per annum from the original cost. Show also how the Plant Account would have appeared, had Depreciation been written off annually at the rate of $7\frac{1}{2}$ per cent. on the balance standing to the debit of the Account at the commencement of the year.

9. When making up the accounts of a Company at the end of its first year's operations, the directors instructed you to charge against Profits one-fifth of the Preliminary Expenses, to provide for Depreciation at stated rates, and to transfer one-tenth of the balance to a Reserve Account. At the end of the second year, it was found that before making such provisions the accounts showed a loss. Is the fact that a loss has been made any reason for refraining from making provisions on the same scale as in the previous year? Give reasons for your answer.

10. On the Balance Sheet of a Company appears the following item—

"Forfeited Shares £25."

What do you understand this to mean?

THE AUCTIONEERS' INSTITUTE OF THE UNITED KINGDOM.

PRELIMINARY, 1910.

[2 hours allowed.]

1. What do you understand by a Bill of Exchange?
2. (a) If C. Lyon, of Paris, accepts a Bill for £100 drawn by me on him at three months from March 1, 1910, when will it be matured (exactly due)?
(b) How soon could I exchange the Bill for cash if I stood in need of money?
3. Compile a Cash Account—

1910.		£	s.	d.
Jan.	1. Cash in hand	150	0	0
"	2. Paid R. Field	51	0	0
"	5. Received of F. Ford	65	0	0
"	9. Bought Goods for Cash	27	0	0
"	14. Paid for Goods bought at Auction Rooms	43	0	0
"	20. H. Coles pays me	181	0	0
"	22. C. Ross buys Goods for Cash	27	0	0
"	24. F. Cross pays me	86	0	0
"	26. I pay T. Tims	45	0	0
"	31. I pay Rent	8	0	0
"	31. I pay Clerk	5	0	0
"	31. I draw for own use	12	0	0

4. From the following Ledger Totals compile a Balance Sheet—

Dec. 31, 1909.

Dr.		Cr.	Dr.		Cr.
	J. Rees.			H. Evans.	
To Balance	£146		To Balance	£101	
	F. Cross.			Bank.	
	By Balance	£27	To Balance	£541	
	C. Jones.			Cash.	
To Balance	£181		To Balance	£27	
	R. Moyses.			House Property.	
	By Balance	£8	To Balance	£804	
	C. Saul.				
To Balance	£15				
	F. Coles				
To Balance	£75				

Stock in hand at December 31, 1909, £254.

5. Make out separate accounts for each of the following classes of goods, open a Profit and Loss Account, and carry the final balance to the Capital Account—

1909.

Jan. 1. Stocks—Silks £850; Hosiery £480; Linen £747.

	£
Purchases during the year—Silks	4,764
Hosiery	3,860
Linen	8,170
Purchases for Cash—	
Silks	275
Hosiery	474
Linen	1,465
Sales—	
Silks	4,890
Hosiery	4,801
Linen	9,000
For Cash—	
Silks	150
Hosiery	217
Linen	165
Stocks at Dec. 31, 1909—Silks	800
Hosiery	175
Linen	1,417

6. Compile H. Richards' account—

1910.

	£
Jan. 1. He has a Cr. balance of	250
" 2. He buys of me Goods	276
" 3. I sell him a second-hand typewriter	10
" 6. He buys for Cash, Goods	286
" 12. He sells to me for Cash, Goods	326
" 18. He returns Goods because inferior to Sample	6
" 21. I sell him Goods	375
" 25. He gives me a Bill at three months	100

Say whether H. R. is your debtor or creditor at January 31, 1910.

THE AUCTIONEERS' INSTITUTE OF THE UNITED
KINGDOM.

INTERMEDIATE, 1910.

[2 hours allowed.]

1. Mention four of the chief books of account in an ordinary commercial business, giving a specimen ruling of each and describing briefly its uses.

2. On January 1, 1910, you receive a Loan of £1,000 from William Brown and pay the same into your Banking Account. State what entries you would make in your books to record these transactions, giving reasons for your answer.

3. Mention some classes of items which can most conveniently be dealt with through the Journal. Make the opening Journal entries for the following transactions. On January 1, 1910, A. and B. start in business as auctioneers—

A. brings into the Partnership—	£
Freehold Offices, valued at	1,500
Cash	500
Furniture, Fittings, etc.	250
Goodwill and Connection	1,500

3,750

Less, Mortgage on Freehold Premises	1,000
-----------------------------------------------	-------

£2,750

B. brings in—

Cash	£
Goodwill and Connection	500
	1,000

£1,500

4. Assume that on December 31, 1910, A. and B. have made a profit of £2,000, which they share in proportions of three-fifths and two-fifths respectively. Each is allowed 5 per cent. interest on capital before the profit is divided, and their drawings have been A. £950, B. £800. Show their Capital Accounts.

5. Write up the following transactions in the Cash Book of Williams & Son, Auctioneers. Rule up and bring down balances and show agreement with Pass Books. All receipts are paid into the Bank and all payments made by cheque.

1909.

- | | |
|---------|------------------------------------------------------------------|
| Dec. 1. | Balances in hand—Office £169 7s. 6d., Clients £110 4s. 3d. |
| „ 2. | Received of J. Smith, Fee £52 10s. |
| „ 3. | Received of Long & Co., Commission £15 17s. 6d. |
| „ 4. | Paid J. Atkinson his Account for Office Stationery £19 5s. 9d. |
| „ 10. | Collected Rents for Mrs. Smythe £25 10s. 6d. |
| „ 11. | Paid Law Fire Co., Premiums received on their behalf £14 9s. 6d. |
| „ 15. | Received of Capt. Walker, Survey Fee £15 15s. |
| „ 17. | H. Williams drew for his own use £20. |

1909.

- Dec. 18. Paid Mortgage Interest on Account Mrs. Smythe £12 3s. 4*l*.
 „ 23. Received Probate Valuation Fee, Wilson's Exors. £31 10s.
 „ 27. Paid J. Freeman, Esq., Rent of Office to Christmas, £50.
 „ 30. Received from McAndrew & Co., Deposit on Sale of Capt. Walker's Edinburgh Property £300.
 „ 31. Paid Macintosh & Co. their Fees *re* Capt. Walker's Edinburgh Property £26 5s.

The "Office" Pass Book showed a balance of £245 14s. 3*l*. and the "Clients" £109 1s. 11*l*. Freeman's and Macintosh's cheques had not been presented, and McAndrew's being a Scotch cheque, had not been credited by the Bank at date of balance.

6. Place the following figures so as to form a Trial Balance at December 31, 1908, and prepare therefrom a Trading Account, Profit and Loss Account and Balance Sheet.

Goods Purchased £2,476, Sundry Debtors £683, Bought Returns £76, Wages £792, Sold Returns £105, Bad Debts £55, Sundry Creditors £832, Goods Sold £3,762, Stock January 1, 1908, £230, Discounts Allowed £85, Bills Payable £138, Furniture £100, Drawings £350, Office Expenses £326, Capital £500, Cash at Bank £106. The Stock at December 31, 1908, was £431.

THE AUCTIONEERS' INSTITUTE OF THE UNITED KINGDOM.

PRELIMINARY, 1911.

[2 hours allowed.]

1.

£100.

London, Jan. 15, 1911.

Three Months after date pay to me or my order the sum of One Hundred Pounds, value received.

JAMES COLE.

To H. HENDERSON,

Manchester.

On the above form of a Bill of Exchange,

- Write on it to show how it would be accepted payable at The Union Bank, London.
- Say who is the Drawer.
- Say who is the Drawee.
- Say when the Bill will be *exactly* due.
- By what means could I realize (get the money for) the Bill before due date?

2. Write up Frank Green's Account. Show the balance at March 31, and bring it down to commence following month. Balance the Account at April 30.

1910.		£	s.	d.
Mar.	1. F. Green's Dr. Balance	73	5	6
„	5. Received Cash from him	26	12	0
„	5. Allowed him Discount	1	8	0
„	6. Sold him Goods	15	9	6
„	8. Bought Goods of him	43	10	0

		£	s.	d.
1910.				
Mar.	10.	Returned damaged Goods to him	25	0 0
"	10.	Paid him	12	10 0
"	10.	Sold him Goods	5	0 0
"	15.	Sent him Cash	30	0 0
"	20.	Received Cash from him	2	0 0
"	20.	Discount allowed him	5	0 0
"	25.	He repaid a loan of	26	7 6
Apr.	1.	Sold him Goods	5	10 0
"	5.	He returned Goods	0	7 6
"	5.	He charged me expenses on returned Goods	35	0 0
"	5.	Received from him	25	10 0
"	10.	Purchased Goods of him	0	15 0
"	15.	Debit him with expenses paid on his behalf	10	10 0
"	25.	Paid him	0	10 6
"	28.	Received discount of him		

3. Make out a Goods Account and a Profit and Loss Account (neglecting any items not required), and balance to show gross and net Profits.

		£	s.	d.
1910.				
Nov.	1.	Bought Goods of B. Crow	148	15 0
"	1.	Sold Goods for Cash	5	12 6
"	1.	Bought Goods of W. Slater	53	12 0
"	3.	Sold Goods to Hope & Co.	39	7 8
"	3.	Paid B. Crow	141	6 3
"	3.	Discount received	7	8 9
"	5.	Paid Trade Expenses	5	2 6
"	5.	Sold Goods to J. Glen	33	12 6
"	8.	Goods purchased for Cash	8	10 0
"	10.	Paid W. Slater	50	18 6
"	10.	Received Discount	2	13 6
"	10.	Sold M. Shaw	56	12 0
"	12.	Paid Salaries	10	0 0
"	14.	Bought Goods of W. Slater	96	10 6
"	14.	Sold Goods to J. Thin	126	7 6
"	14.	Received of Hope & Co.	35	9 0
"	14.	Discount allowed them	3	18 8
"	14.	Paid J. Glen	36	14 0
"	20.	Sold Goods to J. Glen	38	5 3
"	24.	Discount allowed by J. Glen	1	18 6
"	28.	Paid Rent	12	10 0
"	30.	Goods on hand	105	7 0

4. Make out C. Appleton's Balance Sheet from the following—

		£	s.	d.
1910.				
Dec.	31.	Cash in hand	25	6 0
		Cash at Bank	315	10 0
		Goods on hand	219	8 0
		J. Hill's Cr. balance	150	10 0
		Field & Co's. Dr. balance	86	7 0
		W. Grant owes	25	9 0
		J. Melville, Cr. balance	15	12 0
		Sundry Debtors	17	8 0
		Sundry Creditors	36	14 0
		G. Lucas has on Loan	50	0 0

5. Open Ledger Accounts showing how the Balances in Question 4 would appear.

THE AUCTIONEERS' INSTITUTE OF THE UNITED KINGDOM.

INTERMEDIATE, 1911.

[2 hours allowed.]

1. What do you understand by "Days of Grace," "Rebate," "Sinking Fund," "Goodwill," "Assets"?

2. A., B. and C. are in partnership as Auctioneers and Surveyors, sharing profits in the proportion of $\frac{1}{2}$ each, after allowing 5 per cent. interest on their respective capitals. On January 1, 1910, their capitals were: A. £534, B. £236, C. £985, and at December 31, 1910, the profit for the year (before charging interest on capital) was £753. During the year, A. had drawn out £450, B. £600, and C. £350. Show their Capital Accounts.

3. Enter the following transactions in an Auctioneer's Cash Book, with separate columns for "Office Cash" and "Clients' Cash," and assuming all money paid into Bank and all payments made by cheque--

1911.

- Jan. 1. Balance in "Office Account" £539 14s. 3d.
 „ 1. Balance in "Clients' Account" £2,341 17s. 6d.
 „ 2. Received on account of Major Smart £100 deposit on Sale of "The Elms."
 „ 2. Received Valuation Fee from J. Macdonald, £52 10s.
 „ 3. Paid Mrs. Archer £777 6s. 6d. (being proceeds of Sale of "The Gables" £850, less our charges £72 13s. 6d.)
 „ 3. Drew cheque for our charges £72 13s. 6d., and paid same to Office Account.
 „ 4. Paid Office Salaries £15 3s. 4d.
 „ 5. Received £18 16s. 3d. Weekly Rents due to Major Smart.
 „ 6. Received £45 13s. 3d., our commission on the "Crowhurst" Mortgage.
 „ 6. Paid Office Rent to Christmas, 1910—£50.

Rule up Cash Book and bring down Balances.

4. What part does a Sales Day Book play in a system of double-entry book-keeping, and how would you deal with the items therein, in order to fully carry out the principles of the system?

5. Show in proper form the Account you would render your client, Mr. J. W. Williams, in respect of Sale of his Furniture at 34, Queen's Row, on December 4 and 5, 1910, from the following particulars—

	£	s.	d.
Amount realized as per Catalogue	476	19	10
Paid for Advertising in "Times" and other papers	15	3	9
Printing Posters and Catalogues	12	5	6
Bill Posting, etc.	2	10	0
Men showing and attending at Sale	1	5	0

Charge a Commission of 5 per cent. on the amount realized and show cheque to balance.

6. The following is the Trial Balance of a Hotel for the year ended December 31, 1910. Allow 10 per cent. Depreciation from Furniture and Fittings, 5 per cent. interest on Proprietor's Capital, and prepare Trading and Profit and Loss Accounts and Balance Sheet. The Stock of Wines, etc., at December 31, 1910, was £297 16s. 3d.

TRIAL BALANCE, December 31, 1910.

	£	s.	d.	£	s.	d.
Proprietor's Capital				15,000	0	0
Provisions	3,295	11	10			
Rates, Taxes and License	454	18	0			
Coals and Lighting	562	15	9			
Hotel Receipts				11,556	3	1
Wages	992	0	2			
Wines, Spirits and Cigars	760	19	5			
Garage Expenses and Petrol	475	10	6			
Management Salaries	250	0	0			
Repairs and Renewals	230	6	9			
Garage Receipts				510	18	3
Laundry and House Expenses	707	17	8			
Stable Expenses	386	2	10			
Advertising	269	7	4			
General Charges	97	3	2			
Interest on Mortgage	847	10	0			
Sundry Debtors	109	5	6			
Freehold Land and Buildings	30,500	0	0			
Furniture and Fittings	4,350	0	0			
Horses, Carriages, etc.	300	0	0			
Sundry Creditors				433	17	11
Interest owing on Mortgage				416	14	9
Mortgage on Freehold				20,000	0	0
Cash at Bank and in hand	1,354	14	3			
Stock of Wines, etc., Jan. 1, 1910	348	16	9			
Proprietor's Drawings	1,624	14	1			
	<u>£47,917</u>	<u>14</u>	<u>0</u>	<u>£47,917</u>	<u>14</u>	<u>0</u>

INTEREST COUPON

(see page 277)

The Crown Chemical Co., Ltd.

Debenture No. 132 Interest Coupon No. **10**

For THREE pounds (*less income tax*), Half-year's interest due the 1st day of December 1914, and payable at the NATIONAL PROVINCIAL BANK OF ENGLAND, LIMITED, Bishopsgate Street Within, London, E.C., or at the Registered Office of the Company.

£3.

G. B. Dewar Secretary.

CHAPTER XXXII

ADDITIONAL EXAMINATION PAPERS

R. S. A. BOOK-KEEPING—STAGE 1, 1912

[For solutions see Key, p. 334]

(1) Explain the meaning of the following terms and abbreviations—Account current; Credit note; Rebate; F.O.B; C.I.F; A/S. (2) How many parties are there to an "order" cheque, and who are they? Is it necessary to stamp a cheque; if so, what is the value of the stamp required, and how does it differ from the stamp necessary for a Bill of Exchange?

(3) Prepare Columnar Petty Cash Book on the Imprest System, record the under-mentioned transactions, and bring down the balance as on January 6, 1912 :—

Dec. 31, 1911, Cash in hand, £5 3s. 7d.; Jan. 1, 1912, Received amount to make up imprest to £10; Jan. 2, Bought postage stamps, £1 10s.; Paid carriage, 3s. 7d.; Jan. 3, Paid travelling expenses, 11s. 10d.; Jan. 4, Bought packing materials, £1 3s. 6d.; Bought stationery, 4s. 8d.; Jan. 5, Paid wages to odd man, 6s.; Jan. 6, Bought job line of goods for cash from H. Saunders, £1 15s.

(4) William Jones received the following letter from his customer, Robert Brown, on Jan. 6, 1912 :—" I beg to advise you that I have this day paid into your account at the Union Bank the sum of £19 in settlement of my account less 5% discount. Please return for cancellation the 3 months' bill for £20 accepted by me on December 29, 1911." On Jan. 7, 1912, the Union Bank advised Jones that his account had been credited with £19 as above. Jones therefore returned the bill for £20 to Brown. Show the entries necessary to record the above transactions in Jones's books.

(5) To what Ledger Accounts, and on which side, would you expect to find the under-mentioned transactions posted :—(a) Drew cheque for wages £160; (b) Drew cheque for new printing machine £650; (c) Received cheque £47 10s. from R. Robinson, in settlement of his account (less 5% discount).

EXERCISE.—John Miller commenced business, as draper, on July 3, 1911, with £250 at the Bank, £3 cash in hand, and stock £300. The stock was obtained on credit as follows :—J. Beale & Co. £110; F. Hall & Sons £60; Thomas Fisher £90; and Hugh Jones, Ltd. £40. J. Miller also possessed furniture, fixtures and fittings valued at £70. Open John Miller's Ledger with these items, and post *through the subsidiary books* the following transactions :—

July 3, 1911, Paid cash stamps 5s., stationery 6s. 8d.; Bought from J. Beale & Co. 120 yds. flannelette at 4s. 3d. per doz. yds., on credit. July 4, Bought from F. Hall & Sons 600 yds. shirting

(240 yds. at 8s. 3d. per doz. yds., and 360 yds. at 10s. 9d. per doz. yds.), on credit;

July 5, Bought, for Cash, brown paper and string 15s.;

Banked Cash Sales for the 3rd and 4th July £27 10s. Banked Cash Sales for 5th July £16 5s.; Paid cheque, J. Beale and Co., £30 on account, also Hugh Jones' account less 2½% discount;

July 7, Paid by Cash, carriage 13s. 6d.;

July 8, Sold to Miss H Hayman, on credit, 10 yds. sheeting at 1s. 5d. per yd.; 1 doz. recls cotton for 2s. 3d., 2 pairs lace curtains at 16s. 11d. per pair; Received credit note from F. Hall and Sons for 8 yds. shirting at 10s. 9d. per doz. yds., damaged in transit and returned to Hall on the 8th inst.; Banked Cash Sales for 6th and 7th July, £32 15s.; Cashied cheque for £10, and paid wages, £7 5s. Balance the ledger accounts, bring down the balances, and extract a "Trial Balance" as on July 8, 1911.

R.S.A. BOOK-KEEPING—STAGE, II, 1912

[For solutions see Key, p. 339]

(1) What is a "negotiable instrument"? What is the effect of marking a document "not negotiable"? (2) Briefly explain the purposes for which the Journal is employed in an "up-to-date" counting-house. Journalise the following:—

(a) On Jan. 18, 1912, Peter Sykes exchanged, with Peter Blair, his motor car valued at £350, for a dog-cart valued at £150 and two horses valued at £100 each. (b) On Jan. 19, 1912, John Smith returned damaged goods, invoiced at £10 14s. 6d., to André Gammon. Smith's book-keeper entered the transaction in the Sales Journal, in error.

EXERCISE I. George Norman and Robert Carter were in partnership as Wholesale and Retail Grocers, the former's Capital being twice that of the latter. On Dec. 31, 1911, in addition to the Partners' Capital Accounts' balances, the following appeared in their Ledgers:—

Cash in hand, £47; Cash at Bank, £482; Stock in hand, £870; Fixtures, Fittings and Utensils, £247; Horses and Vehicles, £155; *Sundry Debtors*:—J. Morley, £68; A. Barnes, £23; R. Foster, £29; S. Middleton, £35.

Sundry Creditors:—J. Harris & Sons, £50; W. Clark, £55; Evans Lloyd & Co., £64; W. Newton, £15. Reserve for Rent (due Dec. 25, 1911), £50.

Enter in the Ledger the foregoing particulars; and pass the following transactions through the books:—

Jan. 1, 1912, Paid into bank, £30; Received from J. Harris & Sons, 3 cwt. sugar at 13s. 6d. per cwt.; and from W. Clark, 20 cases preserved fruit at 9s. 6d. per doz. tins (each case contained 2 doz. tins); Jan. 2, Sold A. Barnes 50 lb. tea at 1s. 4d. per lb., and charged him 3s. for boxes. Accepted 3/mo. bill from J. Harris & Sons for £50. Cash Sales for the past two days were £77. Jan. 3, Received and paid into bank cheque from S. Middleton in settlement of his account less 5% discount. Cash Sales for the day, £27. Jan. 4, Paid rent (due Dec. 25, 1911), by cheque. Sold R. Foster, 12 cases "XL" Sauce at 3s. 3d. per doz. bots. (each case contained 2 doz. bots.). Returned to W. Clark 1 case preserved fruit delivered 1st inst.—goods faulty. Jan. 5, J. Morley accepted a one month's bill for £40. Cash

Sales for the past two days were £83. Jan. 6, Sold S. Middleton 1 gross tins Cocoa at 6s. per doz. tins. Received from Evans Lloyd & Co., 30 kegs butter, in all 4 cwt., at 86s. per cwt. The Bank discounted J. Morley's bill at $3\frac{1}{2}\%$. Sent credit note for 3s. to A. Barnes for boxes returned. Paid Wages, £13 10s. in cash. Cash Sales for the day were £46. Jan. 8, Paid by cheque W. Newton's account as on Dec. 31, 1911, less $2\frac{1}{2}\%$. George Norman drew in cash £7, and Robert Carter £3 10s. Paid by cheque Evans Lloyd & Co's. account as on Dec. 31, 1911, less $2\frac{1}{2}\%$. Paid into Bank all cash in hand on this date, except £10 retained for Petty Cash. Purchases and Sales were on credit, unless otherwise stated. Balance the Ledger accounts as on Jan. 8, 1912; bring down balances, and extract T. B.

EXERCISE II. The X Manufacturing Company, Ltd. was registered with Nominal Capital of £75,000 divided into 5,000 Ordinary Shares of £10 ea., and 25,000 6% Pref. Shares of £1 ea. From the following T. B. prepare Trading and P. & L. Ac/s for the year ending Dec. 31, 1911, and Balance Sheet as on that date:—

Dr. Balances. Stock (Jan. 1, 1911), £16,200 4s. 3d.; Cash in hand, £106 2s.; Cash at Bank, £3,196 13s.; Purchases, £25,123 7s.; Returns (Inwards), £901 7s. 9d.; Manufacturing Expenses, £5,314 2s.; Manufacturing Wages, £13,210; Salaries, £1,525; Travellers' Salaries, Commission, and Expenses, £3,210; Rates and Taxes, £210; Insurance, £70; General Expenses, £1,420; Discounts, £1,283 2s.; Bad Debts, £280; Interest and Bank Charges, £87; Land and Buildings, £10,000; Machinery and Plant, £17,000; Sundry Debtors, £28,397 4s. 2d.; Patents, £3,000; Pref. Dividend paid, £706 5s.; Interim Ord. Div. paid, £900. *Total*, £132,140 7s. 2d.

Cr. Balances. Ordinary Share Capital A/c, £30,000; Pref. Share Cap. A/c, £25,000; Sales, £63,200 4s. 8d.; Returns (Outwards), £308 17s. 6d.; Discounts, £578 3s.; Sundry Creditors, £9,843 2s.; Bad Debts Reserve (Jan. 1, 1911), £400; P. and L. A/c (Bal. Dec. 31, 1910), £810; Reserve A/c, £2000. *Total*, £132,140 7s. 2d.

Prepare the necessary accounts, making the following adjustments:—

Charge Depreciation on Buildings at 3% p. a.; and on Plant and Machinery at 6% p. a.; Credit farther reserve of $\frac{1}{2}\%$ on gross Sales to Bad Debt Reserve A/c; Write down Patents 10%; Reserve $2\frac{1}{2}\%$ on Debtors for Discount; and £250 for Directors' Fees; appropriate £2000 to Reserve A/c. Value of Stock on Dec. 31, 1911, was £11,420 8s.

R. S. A. BOOK-KEEPING—STAGE III, 1912

[For Solutions see Key, p. 347]

(1) Prepare the necessary accounts for the following as they would appear in W. A. Richardson's Ledger:—On June 1, 1910, Richardson purchased £5000 New Zealand 3% (1945) Stock at $85\frac{1}{2}$ plus 2s. 6d.% brokerage and 45s. stamps, etc., and on April 3, 1912, he sold £4000 of the stock at 89, and paid £6 7s. expenses. Interest upon the stock is payable half-yearly on April 1 and October 1, less tax (to be taken at 1s. 2d. in the £).

(2) After considering the audited accounts for the year ended Dec. 31, 1911, the Directors of the Rayon d'Or Publishing Co., Ltd.,

resolved as follows :—(a) To pay the 6% dividend (less tax) on the Pref. Stock (£50,000). (b) To pay a dividend of 8% (less tax) on the Ordinary Share Capital (£60,000). (c) To transfer £1500 to Renewals Reserve A/c. (d) To carry forward the balance. Profits shown by the P. and L. A/c amounted to £11,400.

Assume rate of Income Tax payable to be 1s. 2d. in £. Show Journal entries to carry out these resolutions.

(3) Give a form (or forms) of ruling of a Cash Book, suitable for the record of the Receipts and Payments of a Life Assurance Company with a large business and many agencies. (4) Is an employer under any obligation to the Income Tax Authorities with reference to the salaries paid to his staff? Are Limited Companies and their employees upon the same footing as the ordinary employer and his staff in this respect?

EXERCISE. A and B were in partnership as Manufacturing Iron-mongers. Their Capital Accounts, on Dec. 31, 1910, were equal in amount at credit. The partnership agreement provided that A should take £300 of the profits before B received any share. The balance was to be divided equally. During the year ended Dec. 31, 1911, A drew at the rate of £50 a month, and B at the rate of £6 a week. On Dec. 31, 1911, the Ledger Balances, in addition to those of the Partners' Capital and Drawing Accounts, were as shown below :—

On Dec. 31, 1911, Stock in hand was agreed at £6928 4s. 6d., Work in Progress at £301 6s. 1d., and Loose Tools at £406 13s. 2d. Prepare Trading and P. and L. A/c for the year ended Dec. 31, 1911, and, Balance Sheet as on that date, after taking the following into consideration :—(1) The Auditors pointed out that Leasehold Premises had not been depreciated in the past. The lease has 15 years to run, and it is decided to write off the book value in equal annual instalments. (2) Write 10% Depreciation off Plant and Machinery as on Dec. 31, 1910, and 5% off additions made during the year. (3) Write £50 depreciation off Furniture and Fittings. (4) Wages Account includes £47, paid while repairs were being made to machinery. Transfer this amount to its proper account, and also transfer £121 2s. 7d. representing the cost of material used out of stock for such repairs. (5) The unexpired portions of Rates and Insurance on Dec. 31, 1911, were £27 2s. 3d. and £14 0s. 1d. respectively. (6) Create a Reserve for Bad Debts of 5% on the Sundry Debtors. (7) No interest on capital or drawings is to be charged.

Balances :—Cash at Bank, £280 2s. 8d.; Cash in Hand, £37 15s. 2d.; Plant and Machinery (including additions during year of £345 2s.) £4,018 2s. 1d.; Furniture and Fittings, £273 14s. 7d.; Discount account (Debit Balance), £47 3s. 1d.; Manufacturing Wages, £7,649 12s. 10d.; Salaries, £962 13s. 6d.; Purchases, £20,747 16s. 11d.; Carriage, £467 4s. 9d.; Office Expenses, £212 6s. 2d.; Postage and Stationery, £42 15s. 1d.; Leasehold Buildings, £1,500; Sales £34,242 12s. 7d.; Sales Returns, £347 13s. 7d.; Purchases Returns, £742 12s.; Stock (Dec. 31, 1910), £6,738 0s. 2d.; Sundry Debtors, £9,261 12s. 6d.; Work in Progress (Dec. 31, 1910), £276 14s. 11d.; Advertising, £117 17s. 1d.; Bad Debts, £135 2s. 7d.; Interest on Temporary Loan (repaid Nov., 1911), £6 7s. 10d.; Loose Tools (Dec. 31, 1910), £431 14s. 2d.; Rent, Rates, and Taxes, £346 15s. 3d.; Insurance, £92 4s. 2d.; Commission, £114 9s. 11d.; Lighting and Heating, £102 4s. 7d.; Sundry Creditors, £2,136 19s.

R. S. A. BOOK-KEEPING—STAGE I, 1913.

[For solutions see Key, p. 350]

(1) Explain the meanings of the following terms and abbreviations :—Book Debts; Voucher; Per Cent.; R/D; p.a.; Net.

(2) Briefly explain the uses of the following :—(a) Invoice; (b) Statement; (c) Credit Note. Give specimen form of each document (write two entries), assuming that John Johns is a customer of William Walter & Co., Ltd.

(3) From the following statement of a Trader's Credit Sales, Credit Purchases, and Returns (Inwards and Outwards) enter the transactions in the proper books of original entry and show the totals of each. *No posting to Ledger Accounts to be done* :—Feb. 3, 1913, Bought from F. Grace, 2 doz. Pocket Knives at 4s. 6d. ea.; Sold J. Abel, 1 doz. Photo Frames at 1s. ea.; Sold J. Shrewsbury, 6 doz. Dessert Knives at 20s. per doz., less 5% Trade Discount; Received from B. Briggs, 1 case Carvers 25s., returned damaged. Feb. 4, Bought from G. Mead, 2 doz. Silver Photo Frames at 5s. 6d. ea., less 10% Trade Discount; Returned to N. Hurst, 1 doz. pairs Scissors at 18s. per doz., wrong size. Feb. 5, Sold W. Humphreys, $\frac{1}{2}$ doz. Razors at 3s. ea., and charged him 6d. carriage; Sold L. Townsend, 2 cases Fish Knives and Forks at £2 per case; Returned to F. Grace, $\frac{1}{2}$ doz. Pocket Knives at 4s. 6d. ea., poor quality. Feb. 6, Bought from B. Lilley, 2 doz. Glass Match Stands, Silver Mounted, at 6s. ea.; J. Abel returned $\frac{1}{2}$ doz. Photo Frames at 1s. ea., not ordered. Feb. 7, Sold J. Hearne, 3 doz. Pocket Knives at 30s. per doz., less 5% Trade Discount; Sold to V. Gunn, $\frac{1}{2}$ doz. Glass Match Stands, Silver Mounted, at 8s. 3d. each. Feb. 8, Bought from L. Spooner, 6 cases Fish Knives and Forks at £3 per case, less 10% Trade Discount.

(4) On Jan. 1, 1913, Middlemiss & Turnbull, London, sent S. Macgregor, Manchester, for acceptance, a B/E for £100, dated Jan. 3, 1913, payable at 3 m/d. Macgregor accepted the draft and made it payable at the Staple and Stedfast Banking Co., Ltd., of Stockport. Show the Bill as it would appear when returned to Middlemiss & Turnbull, state who is the Drawer and who the Drawee, and give the date when the Bill will mature.

(5) A Firm's book-keeper had, during the month of Jan. 1913, entered Returns Inwards and Outwards in the Purchases Book and Sales Book respectively, and posted the monthly totals of each to Purchases and Sales Accounts in the Ledger. What entries should be put through the books to rectify these mistakes, assuming that Returns Inwards for the month amounted to £40 and Returns Outwards to £30?

EXERCISE. Charles Ross & Augustus Webb, trading in partnership as Furniture Dealers, had £400 each standing to the credit of their Capital Accounts on Jan. 1, 1913. The other balances on this date were :—

Debit Balances. Stock, £813; Debtors :—F. Larnar, £62; N. Sturgess £49; Cash at Bank, £113; Cash in Hand, £10; Furniture and Fittings, £45.

Credit Balances. Creditors :—F. Hammond, £134; L. Yates, £81; E. Bridge, £77. Open Ross & Webb's Ledger from these particulars, and post thereto, through the books of original entry, the following transactions :—

Jan. 1, 1913, Sold F. Larner on credit, 6 Windsor Smoking-Room Chairs at 18s. 6d. ea.; Sold for Cash, 1 Occasional Table for £1 1s. Jan. 2, Bought for Cash, Stationery, £1 5s.; Paid Window Cleaner, 5s. in Cash; Bought of L. Yates, on credit, 1 Walnut Hall Stand, £3. Jan. 3, Received cheques and paid them into the Bank:—F. Larner, £50 on account; N. Sturgess, balance of account, less 5% discount. Jan. 4, Drew and cashed Cheque, £15; Paid Wages, £7 10s. (including Insurance Stamps) in Cash; Each Partner withdrew £3 10s. in Cash. Jan. 6, Sold for Cash, 1 Bedroom Suite, £15; Paid into Bank, £10. Jan. 7, Sent Credit Note to F. Larner allowing 6d. ea. on 6 Windsor Smoking-Room Chairs; Drew cheques:—F. Hammond, £50 on account; L. Yates, £30 on account; E. Bridge, the amount of his Account, less 5% Discount. Jan. 8, Paid Rent by Cheque, £25; Paid Gas Account by Cash, £7 13s. Balance the Ledger Accounts, bring down the Balances, and extract T. B. as on Jan. 8, 1913.

R. S. A. BOOK-KEEPING—STAGE II, 1913

[For solutions see Key, p. 357]

(1) Rule forms of Sales Journal and Cash Book for a firm using Town and Country Self-Balancing Ledgers. The Sales Journal should also provide for analysis of Sales as between three departments. State how and where the items entered in each book should be posted. (2) What portions of the Salaries and Wages should be charged to the Trading A/c and what to P. and L. A/c in the business of a Manufacturer? Name some items of expenditure, which may occur in the same business, and which should be charged to Capital.

EXERCISE I. The following was the Balance Sheet of Smith & Company, Ltd., as on December 31, 1912:—

Liabilities:—Nominal Capital 6,000 shares of £1 ea., 5,000 being issued and fully paid; Sundry Creditors:—Rent, £120; Income Tax, £62; H. Bell, £75; T. Burton, £33; R. Lawson, £60. Bill payable, A. Scott, £40; P. and L. A/c, £907. *Total*, £6,297.

Assets:—Leasehold Buildings, £1,000; Fixtures, fittings and Furniture, £472; Sundry Debtors:—H. Falconer, £153; T. Cove, £71; N. Carver, £149; V. Row, £27. Stock on Hand, £3,023; Bill receivable, G. Watson, £100; Cash at Bank, £1,252; Cash in Hand, £50. *Total*, £6,297.

Open the necessary Ledger Accounts for the above, and post the following transactions through the subsidiary books:—

Jan. 1, 1913, Received cheque from T. Cave, for balance of account, less 2½% discount; Purchased from A. Scott, 1 gross 1-lb. jars Marmalade at 4s. per doz; Sold N. Carver, 10 cwt. Beet Sugar at 9s. 6d. per cwt.; Jan. 2, 1913, Paid by cheques, Rent and Income Tax, owing on Dec. 31, 1912; Paid carriage by cash, £3 2s. 4d.; Received from H. Falconer, bill at 3 m/d, dated Jan. 2, 1913, for £100, and discounted it, Bank Charges being £1 0s. 4d. Jan. 3, Sold V. Row, 56 lb. Tea at 1s. 1d. per lb.; T. Cave's cheque (received on the 1st inst.) was returned by the Bank, marked R/D. Jan. 4, Purchased from R. Lawson, 2 gross tins Preserved Pears at 6s. 6d. per doz; Cash Sales, £8 19s.; Paid T. Burton, by cheque, balance of account, less 2½% discount. Jan. 5, Received cheque from N. Carver for £80 on a/c; Sold H. Falconer, 2 cwt. Ground Rice at 2d. per lb.; Sent C/N to N. Carver for 5s.—short weight in goods sold

him on 1st inst. Jan. 6, Bill payable £40, due this date, was presented to and paid by the Bank. Jan. 7, Paid Wages, in cash, £19 5s.; Received 4d. from each of 8 employees for National Health Insurance; Returned R. Lawson 1 doz. tins Preserved Pears (damaged) purchased on the 4th inst., and received C/N. Jan. 8, Purchased out of Cash new showcase and fittings for £18; Cash Sales, £23; Paid into the Bank all cash in hand, less £10 retained. Purchases and Sales were on credit, except where the contrary is stated. All cheques received were paid into the Bank. Balance the Ledger Accounts as on Jan. 8, 1913, bring down the balances, and extract a T. B.

EXERCISE II. The following T. B. was extracted from the books of Angus MacAdam and John Westrum as on Dec. 31, 1912:—

Dr. Balances. Angus MacAdam (Drawing Account), £1,000; John Westrum (Drawing Account), £300; Land and Buildings, £4,960; Plant and Machinery, £1,036 10s.; Stock, Jan. 1, 1912, £2,019 3s. 7d.; Sundry Debtors, £1,596 15s.; Purchases, £9,284 1s. 6d.; Returns Inwards, £370 2s.; General Expenses, £150 6s.; Manufacturing Wages, £2,001 15s. 7d.; Rates and Taxes, £167 4s. 9d.; Insurance, £66 9s. 7d.; Manufacturing Expenses, £225 10s. 4d.; Salaries, £666 8s.; Discount Account, £39 4s. 1d.; Cash in hand, £64 3s. 8d.; Cash at Bank, £655 9s. 4d. *Total*, £24,603 3s. 5d.

Cr. Balances. Angus MacAdam (Capital Account), £6,000; John Westrum (Capital Account), £2,000; Sundry Creditors, £1,362 13s. 3d.; Reserve for Doubtful Debts, £66 3s.; Sales, £14,274 6s. 6d.; Returns Outwards, £870 2s.; Discount Account, £29 18s. 8d.; *Total*, £24,603 3s. 5d.

The Partnership Agreement provides that:—

(a) 5% p. a. shall be allowed on Capital (as a charge to the P. & L. A/c), the interest to be credited to Partners' Drawing A/c. (b) A Partnership Salary out of Net Profits (if and as made) of £300 p. a. shall in the first instance be credited to Mr. Westrum's Drawing A/c. (c) The Net Profit (if any), after providing for Partner's Salary, shall be divided *pro rata* according to the amounts at credit of Partners' Capital A/c, and be credited to their Drawing A/cs. Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1912, and B/S as on that date, after charging Depreciation at the rate of 2½ % on Land and Buildings, and 10 % on Plant and Machinery; increasing the Reserve for Doubtful Debts to 5% on the Sundry Debtors; and carrying forward the unexpired portions of expenses, viz. Rates, £27 1s. 9d., and Insurance, £16 7s. 9d. Stock on hand on Dec. 31, 1912, was agreed at £1,991 7s. 6d..

R. S. A. BOOK-KEEPING—STAGE III, 1913

[For solutions see Key, p. 366]

(1) The Falkirk Foundry Co., Ltd., was formed in Jan. 1912, to take over the business of John B. Clark, with a Nominal Capital of 125,000 Shares of £1 each. Assets were taken over at book values; and, in addition, 10,000 fully paid shares of £1 ea. were issued to Vendor as purchase price of Goodwill. 100,000 Shares of £1 ea. were offered to the public, fully subscribed, and called up. Excepting £300, calls were duly paid up, as on Dec. 31, 1912. During the year, £25,000 5% Debentures were issued. In addition to the foregoing, the following accounts remained open upon the Company's Books as on Dec. 31, 1912:—Sundry Creditors, £8,960; Land and

Buildings, £55,895; Investments, £20,220; Preliminary Expenses Account (Balance), £1,560; Reserve Fund, £2,000; Stock in Trade (Dec. 31, 1912) £12,690; Plant A/c, £24,908; P. and L. A/c (undistributed balance), £2,550; Cash at Bank, £9,876; Cash in hand, £489; Sundry Debtors, £12,572. Prepare B/S of the Company as on Dec. 31, 1912.

(2) Briefly explain the following entries in the books of the East Essex Assurance Co., Ltd., at the close of the Company's financial year; and describe the sources from which the entries would be compiled:—

	£	£
(a) Claims Account Dr.	15,000	
to Outstanding Claims Account		15,000
for claims admitted, but not paid.		
(b) Agents' Commission Account Dr.	1,980	
to Sundry Agents		1,980
for commission due, but not yet paid.		
(c) Out-standng Premiums Account Dr.	21,000	
to Premiums Account		21,000
for premiums not yet collected.		

(3) The Books of John Rogerson & Co. are kept on the double-entry system, and include a Bought Ledger and three Sales Ledgers (Town, Country, and Foreign). Write a short report, instructing the firm's book-keeper how to convert these Ledgers into Self-balancing Ledgers.

(4) Enumerate six items, other than depreciation, properly charged in the P. and L. A/c of a commercial undertaking, but which would be disallowed by the Surveyor of Taxes in an Income Tax return under Sch. (D). State why in each case.

(5) On Jan. 1, 1912, the Lucas Manufacturing Co., Ltd., was formed to acquire the business of A. B. Lucas. The Nominal Capital of the Company was £20,000, divided into 20,000 shares of £1 ea. 10,000 fully paid shares of £1 were allotted to the Vendor as the purchase price for his business, the remainder being offered for public subscription, of which 8,000 were applied for and allotted. Up to Dec. 31, 1912, 17s. 6d. per share had been called up; and, except 2s. 6d. per share on 1,200 shares, had been paid in full. The balances, stated below, appeared in the Company's books on Dec. 31, 1912, in addition to the balance represented by the above transactions. Stock in hand on Dec. 31, 1912, was agreed at £3,104 14s. 10d. Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1912, and B/S as on that date, after taking into consideration the following:—(a) Write 10% Depreciation off Plant and Machinery and Fixtures and Fittings; and one-half the balance of Preliminary Expenses A/c. (b) A quarter's rent (£62 10s.) was outstanding on Dec. 31, 1912; and Rates and Insurance unexpired on that date were respectively £17 2s. and £14 6s. 1d. (c) Increase Reserve for Bad and Doubtful Debts to 5% on the amount of the Sundry Debtors. *Balances.*—Plant and Machinery, £8,741 10s.; Fixtures and Fittings, £942; Sales, £22,952 14s. 9d.; Sales Returns, £421 14s. 9d.; Purchases £12,642 14s. 7d.; Purchases Returns, £147 6s. 2d.; Reserve for Bad Debts, £150; Manufacturing Wages, £5,412 0s. 6d.; Carriage Outwards, £322 4s. 1d.; Lighting and Heating, £86 14s. 1d.; Fuel and Power, £337 6s. 11d.; Sundry Debtors, £6,414 15s.; Sundry Creditors, £1,342 10s. 9d.; Bills Receivable, £142 16s. 6d.; Discount Account

(Debit Balance), £18 9s. 1d.; Preliminary Expenses Account, £216 7s. 2d.; Salaries, £750; Directors' Fees, £200; Rates, Taxes, and Insurance, £137 14s. 6d.; Rent, £187 10s.; General Expenses, £216 14s. 1d.; Manufacturing Charges, £167 16s. 5d.; Stock (Dec. 31, 1911), £3,416 18s. 4d.; Cash at Bank, £647 14s. 11d.; Cash in Hand, £19 10s. 9d.

R. S. A. BOOK-KEEPING—STAGE I, 1914

[For solutions see Key, p. 367]

(1) Explain the meanings of the following terms and abbreviations:—Days of Grace; Bad Debt; Depreciation; Above Par; P/N; C.O.D. (2) Give one example, and record a few items therein, of each of the following kinds of account:—(a) Personal, (b) Real, (c) Nominal.

(3) On Jan. 1, 1914, Henry Cross found that according to his Pass Book his balance was £152 16s. 1d., whereas his Cash Book showed a balance of £150 10s. He found that a cheque for £25, paid in on Dec. 30, 1913, had not yet been placed to his credit in the Pass Book, and that a cheque for £27 6s. 1d., drawn by him on Dec. 29, 1913, had not been presented for payment. Prepare a Reconciliation Statement agreeing the two balances.

(4) Rule a columnar Petty Cash Book providing for the following headings:—Postage, Telegrams, etc.; Carriage; Office Expenses; Stationery, etc.; Travelling; Salaries and Wages; and Sundries. Record the following transactions therein, and bring down the balance as on Dec. 6, 1913, and enter the amount to be received from the Cashier to make up the "Imprest" of £20:—Dec. 1, 1913, Received and cashed cheque for £12 8s. 7d., to make up the "Imprest," viz., £20; Bought Stamps, £1 10s.; Paid Office Cleaner, 5s. Dec. 2, Bought Stationery 12s.; Paid telegram to J. Brown, 1s. 8d.; Bought Office Stool, 12s. Dec. 3, Paid fares to Chiswick, 1s.; Paid Account for Telephone Trunk Calls for November, £1 18s. 9d. Dec. 4, Paid Carriers' Account, £1 2s. 4d.; Received from Inland Revenue for Spoiled Stamps, £1 8s. 6d.; Paid for Insertion in Directory, 5s.; Paid Return Fare to St. Albans, 3s. 10d.; Bought Packing Materials, £1 19s. 4d. Dec. 5, Paid Window Cleaner 6s. 6d.; Bought Pens and Pencils, 5s. 3d. Dec. 6, Paid Wages to two casual men at 5s. per day each for three days; Paid Salaries to Office Boy and Typist, £1 15s.

(5) Show, by Journal Entries, which accounts would be debited and credited respectively in the books of John Brown, to record the following transactions, during Oct. 1913:—(a) Received from Geo. Higgs bill at 3 m/d for £20, in settlement of his account (£20 3s. 4d.), the balance of 3s. 4d. being discount. (b) Received from H. T. Pearce a sewing machine, value £8, as part payment of his account.

(6) The following was the B/S of Henry Coulthard as on Dec. 31, 1913:—

Liabilities. Capital A/c, £361; Sundry Creditors:—F. Nelson, £96; G. Harrod, £48; T. Arnold, £24. Bank overdraft, £6. *Assets.* Machinery, Fixtures and Fittings, £120; Sundry Debtors:—A. Coats, £72; S. Wilcox, £24; B. Vickers, £8. Stock in Hand £296; Cash in Hand, £15. Open the accounts, in Henry Coulthard's Ledger to record the foregoing; and post on through the books of original entry, the following transactions:—Jan. 1, 1914, Bought,

on credit, from T. Arnold, half-ton Motor Inner Tubes at £26 per ton; Received and paid into Bank cheque from A. Coats for £70, the balance being discount; Sold, for cash, 5 cwt. ground rubber at £1 17s. 4d. per cwt. Jan. 2. Sold, on credit, to B. Vickers, 1 ton Cab Tyres at 40s. per cwt; Sold, for cash, half-ton of ground rubber at £23 2s. per ton. Jan. 3. Paid T. Arnold, by cheque, his account as on Dec. 31, 1913, less 10% discount; Sold, on credit, to S. Wilcox, 2 tons Bus Tyres at £42 per ton, and received cheque for his account as on December 31, 1913, less 5% discount; Drew cheque for £5 for private purposes. Jan 4. B. Vickers returned, as un-suitable, half-cwt. of rubber invoiced on the 2nd inst. Sent him credit note for same; Sold, for cash, 6 cwt. Inner Tubes at 38s. 6d. per cwt. Jan. 5. Paid in Cash, Wages, £10 16s. 4d. (including Insurance Stamps); Paid G. Harrod cheque for £18 on account; Bought, on credit, from F. Nelson, 2 tons Cab Tyres at £41 10s. per ton; including charge for bags; Paid Cash for Sundry Trade Expenses, £9 12s. 4d. Jan. 6. Bought a Weighing Machine for £12 from H. Jackson, and paid him by cheque; Returned to F. Nelson 20 empty bags, and received credit note for 6s. 8d.; Paid into Bank from Cash, £21 9s. Balance the Accounts, bring down the balances, and take out T. B. as on Jan. 6, 1914.

R. S. A. BOOK-KEEPING—STAGE II, 1914

[For solutions see Key, p. 375]

(1) The following errors were found in the books of John Brown & Co., Ltd., affecting the year ended Dec. 31, 1913:—(a) June 4. Cheque received from M. Stein for £10 was posted to his credit as 10s. (b) Dec. 27. Goods returned by E. Hay, invoiced at £17 10s., were taken into Stock at £15; but were not entered in the books until the following month. (c) Oct. 1. A purchase value £35 10s. was entered in the Purchase Journal correctly, but was credited to the Personal Account as £30 5s. 10d. Show the adjusting Journal entries required to rectify these errors in the books, as on Dec. 31, 1913.

(2) What constitute the essential differences between a Trading, a P. and L. A/c, and an Appropriation Account?

EXERCISE I. The following was the B/S of the Bright Coal Co., Ltd., as on Dec. 31, 1913:—

Liabilities:—Nominal Capital, 5,000 Shares of £1 ea., 4,500 being issued and fully paid; Sundry Creditors:—Blank Colliery Co., £190; White Coal Co., £210; W. Stranson £35; S. Brown, £18. Bill payable, Dumbleton Colliery Co., £300; Profit and Loss Account (balance), £339. *Total*, £5,592.

Assets:—Freehold Buildings, £890; Railway Trucks, £2,100; Office Furniture, £70; Scales and Sacks, £130; Horses and Vans, £390; Sundry Debtors:—W. Carter, £18; Rowton Corporation, £328; V. Norman, £82; J. Wilson, £23. Stock on hand, £1,000; Cash at Bank, £487; Cash in Hand, £74. *Total*, £5,592. Open Ledger A/cs to record the foregoing, and post, through the subsidiary books, the following transactions:—

Jan. 1, 1914, Bought of Dumbleton Colliery Co. 100 tons Steam Coal at 10s. 3d. per ton; Sold H. Carver, 6 tons House Coal at 27s. 6d. per ton; Cash Sales, £18 10s. 6d. Jan. 2, Paid Blank Colliery Co. their account, less £11 11s. 3d. allowance for short weight; Cash

Sales, £9 10s. 6d.; Bought, out of Cash, Insurance Stamps, value 14s.; Sold Rowton Corporation, 80 tons Steam Coal at 20s. per ton. Jan. 3, Cash Sales, £21 10s.; Received of Rowton Corporation, cheque, £300; Bought of the Blank Colliery Co., 200 tons Coal at 11s. 9d. per ton; Paid Wages in Cash, £15 9s.; Received 4d. from each of 10 employees for National Health Insurance. Jan. 5, Bill payable, £300, due this date, was presented to, and paid by, the Bank; Cash Sales, £19 5s.; Paid W. Stranson his Account, by cheque, less 12s. for corn sacks returned; Bought of S. Brown, 2 tons Hay at £6 5s. per ton; Cash Sales, £18; Received from V. Norman his Account, by cheque, less £3 allowance. Jan. 7, Cash Sales, £23 5s. 6d.; Paid to Bank all cash in hand, less £25 retained; Sold Rowton Corporation, 120 tons Steam Coal at 20s. per ton. Purchases and sales were on credit, except where stated. All cheques were paid into the Bank. Balance the Ledger Accounts as on Jan. 7, 1914, bring down balances, and extract T. B.

EXERCISE II. The Speedy Motor Cab Co., Ltd., was registered with a Nominal Capital of £30,000, divided into 10,000 Ordinary Shares of £1 each, and 20,000 6% Preference Shares of £1 each. From the following T. B. prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1913, and B/S as on that date:—

Dr. Balances:—Call in arrear on Pref. Shares, £8 10s.; Stock in hand (Jan. 1, 1913), £1,305 8s. 7d.; Cash in hand, £28 9s. 3d.; Salaries, £1,187 10s. 3d.; Tyres, £4,906 3s. 11d.; Insurance, £1,521 8s.; General Expenses, £278 9s.; Plant and Machinery, £1,451 9s.; Fixture and Fittings, £1,126 17s.; Taxi Cabs, £28,000; Debtors, £89 17s. 3d.; P. and L. A/c (Balance, Dec. 31, 1912), £748 3s. 5d.; Rent of Taximeters, £465 10s.; Licences, £312 8s.; Petrol (less Payment by Drivers), £874 8s. 6d.; Training Drivers, £103 5s. 4d.; Washing and Cleaning Cabs, £2,606 8s. 2d.; Repairs, £1,310 12s. 5d.; Rent, Rates and Taxes, £953 8s. 7d.; Lighting, £189 5s. 4d.; Directors Fees, £250; Preliminary Expenses, £458 9s. 6d.; Legal Expenses and Audit Fee, £102 5s. 3d. *Total*, £48,778 6s. 9d.

Cr. Balances:—Ord. Share Cap. A/c, £10,000; Pref. Share Cap. A/c, £18,267; Bank Overdraft, £603 5s. 4d.; Cab Earnings, £18,697 19s. 5d.; Creditors, £710 2s.; Reserve for Renewals (Jan. 1, 1913), £500. *Total*, £48,778 6s. 9d. Before preparing the Accounts, make the following adjustments:—

Charge Depreciation on Plant and Machinery, and Fixtures and Fittings, at 10 per cent. p. a.; and on Taxicabs at 5 per cent. p. a. Reserve for Renewals, £500; for Rates, £18 7s. 6d.; for Insurance paid in advance, £170 1s. 6d. Drivers' takings on Dec. 30 and 31 value £171 8s. 3d., were not paid in until Jan. 1. Write off one-third of the Preliminary Expenses Account. Value of the Stock in hand as on Dec. 31, 1913, was agreed at £1,486 10s. 9d.

R. S. A. BOOK-KEEPING—STAGE III, 1914.

[For solutions see Key, p. 333]

(1) The undermentioned persons applied for, in the order named, and, with one exception, were allotted Shares of £1 ea. in Soleil d'Or Limited. Shares were payable 5s. on application, 5s. on allotment, and the balance when determined by Resolution of the Directors. The distinctive numbers of the Shares in question ran from 1 onwards. The Application List was closed on July 1, 1913, and all allotment

moneys were paid on or before July 15, 1913. Make the entries recording the application for, and allotment of, the following Shares in the Application and Allotment Book of the Company :—Robert Rheid, 16 Finsbury Circus, E.C., Wool Broker, Applied for 5,000, allotted 5,000; George Dewey, 261 Low Pavement, Nottingham, Lace Manufacturer, applied for 1,000, allotted 500; Robert Richmond, Eastwood, Essex, Rose Grower, applied for 2,000, allotted 2,000; Florence Veitch, The Manse, Loamtown, Spinster, applied for 100, allotted none.

(2) What is an Account Current? Illustrate, by means of a *pro forma* A/c, a convenient method for determining interest on the balance of an account current between a merchant and his foreign agent.

(3) On Dec. 31, 1912, the Hadleigh Trading Company stood in the books of A. B. Waters as debtors for £497 12s. 6d.; and on Jan. 1, 1913, they accepted three bills: one for £150 at 1 m/d, one for £175 at 2 m/d, and a third, for the balance of the account, at 4 m/d. The first was met at maturity; the second was dishonoured, but was renewed at one month, plus 5% interest, and duly met; the third was taken up, under rebate of 5%, one month before maturity. Show the necessary entries in the books of A. B. Waters.

(4) The P. and L. A/cs, as prepared by Robert Rayleigh, for the three years ended March 31, 1913, are set out below. The factory occupied by him was his own freehold property, Schedule A Assessment being £300 p.a. The Surveyor disallowed the amounts charged in the Accounts for Depreciation, but agreed to an allowance of £39 for Depreciation on Plant. Prepare G. Rayleigh's return for Schedule D purposes for the fiscal year 1913-14.

	1911	1912	1913
	£	£	£
General Expenses .	450	501	462
Depreciation (Plant) .	82	71	68
Do. (Fixtures)	15	15	15
Fire Insurance .	12	12	12
Income Tax .	29	27	19
Interest on Capital .	350	350	350
Charitable Donations .	10	19	17
Salaries .	560	620	580
Net Profit .	682	227	169
	<u>£2,190</u>	<u>£1,842</u>	<u>£1,692</u>
	1911	1912	1913
	£	£	£
Balance from			
Trading A/c	2,190	1,842	1,692
	<u>£2,190</u>	<u>£1,842</u>	<u>£1,692</u>

(5) A was a manufacturer, and on Jan. 1, 1913, admitted his manager B as a salaried partner, on the following conditions :—

(a) A Goodwill A/c was to be opened in the books of the new Firm, and debited with £5,000, 3/4ths being credited to A's Capital A/c and 1/4th to B's, the result being that A's share of the goodwill was equal

to 1/3rd of the balance of his Cap. A/c before the admission of B. (b) Partners' Capital A/cs were to be credited with interest at 5% p. a. (out of profits). (c) B was to receive (out of profits) a salary of £500 p. a., payable monthly, and to be credited with 10% of the profits shown by the P. and L. A/c before charging his salary or interest on capital. The remainder of the profits (if any) were to belong to A. (d) B was entitled to draw (with the consent of A) during the year sums on account of his percentage of profits. (e) No interest was to be charged on the drawings of either partner. The entries required by (a) were duly made on Jan. 1, 1913; and during the year ended Dec. 31, 1913, B drew his salary, and also £50 on account of profits. In addition to the amount standing to the credit of A's Cap. A/c, before B became a partner, and the balances of the foregoing transactions, the following balances appeared in the books of the Firm as on Dec. 31, 1913 :—

*Balances :—*Cash at Bank, £490 12s. 4d.; Cash in Hand, £14 7s. 3d.; Fixtures and Fittings, £327; Plant and Machinery (including additions during the year of £97), £4,524 12s. 6d.; Purchases, £17,420 14s. 4d.; Sales, £31,921 10s. 6d.; Carriage Inwards, £114 11s. 11d.; Carriage Outwards, £246 14s. 5d.; A Drawings Account, £1,275; Manufacturing Wages, £5,426 10s.; Office Salaries, £641 16s. 8d.; Sundry Debtors, £8,942 14s. 10d.; Sundry Creditors, £2,337 15s. 9d.; Discount Account (Cr. Bal.), £8 0s. 3d.; Postage and Stationery, £51 12s. 9d.; Office Expenses, £197 14s. 7d.; Manufacturing Expenses, £439 2s. 1d.; Stock (Dec. 31, 1912), £5,064 4s. 8d.; Bad Debts, £271 16s.; Rent, £225; Bills Payable, £1,324 10s.; Rates, Taxes, and Insurance, £127 2s. 10d.; Fuel and Power, £102 4s. 7d.; Lighting and Heating, £49 6s. 4d.; Purchases Returns, £987 14s. 1d.; Sales Returns, £1,326 12s. 6d.

Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1913, and B/S as on that date, after making following adjustments :— (a) (1) Write 10% depreciation off Plant and Machinery as on Dec. 31, 1912; 5 per cent. off additions made during the year; and £27 off Fixtures and Fittings. (2) One quarter's Rent, £75, was owing on Dec. 31, 1913. (3) Unexpired Rates and Insurance on Dec. 31, 1913, were respectively, £12 6s. 2d. and £10. (4) Stock on Hand at Dec. 31, 1913, was agreed at £4,945 15s. 6d.

R. S. A. BOOK-KEEPING—STAGE III, APRIL, 1919.

(1) On Nov. 11, 1918, J. B. Clark, of Altwood Road, Bray, applied for 1,000 £1 6% Pref. Shares in the Marne Mining Co., Ltd., and paid 2s. 6d. per share upon application. The shares were allotted to him on Nov. 16, and were numbered 5490 to 6489. On Nov. 18, he sent a cheque to the Company's Bankers for the amount due on allotment, viz. 5s. per share. On Dec. 18, he paid the first and final call of 12s. 6d. per share. On Dec. 24, 1918, he sold 500 shares (numbered 5490 to 5989) at 25s. per share to A. Chatney, The Chestnuts, Dover, the transfer being approved by the Directors on Dec. 31, 1918. Show the entries necessary to record these transactions in the statistical books of the Company.

(2) What is a "Secret Reserve"? Illustrate two methods by which a limited company could create such a reserve, and state your views as to the practice. (3) What is Super-tax? Upon whom is it levied? (4) Briefly state the considerations which would guide you in allocating expenditure as between Capital and Revenue.

(5) The Somme Trading Co., Ltd., was registered with a nominal capital of £200,000, divided into 100,000 6% Pref. Shares of £1 ea., and 100,000 Ord. Shares of £1 ea. All the Ord. and 50,000 Pref. Shares were issued and fully paid up, except that the final call of 5s. per share on 1000 Ord. Shares remained unpaid as on Dec. 31, 1918. In addition to the accounts represented by the foregoing, the following balances were extracted from the Company's books as on Dec. 31, 1918.—Freehold Warehouse, £101,000; Goodwill, £20,000; Machinery and Plant, £19,500; Machinery and Plant additions during the year, £3,200; Stock (Dec. 31, 1917), £9,281; Interest and Dividends received, £242; Warehouse Wages, £8,241; Sales, £43,872; Sales Returns, £122; Purchases, £15,864; Purchases Returns, £831; Cash at Bank, £4,400; Cash in Hand, £141; Bills Payable, £1,841; Reserve Fund, £19,000; Investments, £9,750; Patents, £10,000; Office Salaries and Expenses, £2,261; Warehouse Expenses, £1,874; Directors' Fees, £1,500; Sundry Debtors, £12,940; Sundry Creditors, £3,626; Travellers' Salaries and Expenses, £1,342; Rates, Taxes, Insurance and Telephone, £645; Carriage Inwards, £1,172; Carriage Outwards, £796; Reserve for Bad Debts (Dec. 31, 1917), £550; P. and L. A/c (Cr. Bal., Dec. 31, 1917), £15,241; Dividends paid during the year, £10,924. Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1918, and B/S as on that date. When preparing the accounts make the following adjustments:—(a) Increase Reserve for Bad Debts to an amount equal to 5% on Sundry Debtors. (b) Wages amounting to £284 were paid to firm's workmen for time employed in fixing new machinery. (c) Write 10% depreciation off Machinery and Plant, and 15% off Patents. (d) Interest on Investments, amounting to £141, had accrued due, but had not been received as on Dec. 31, 1918. (e) Stock on hand, on Dec. 31, 1918, was valued at £9,451. (f) Unexpired insurance £42 is to be carried forward to next year.

R. S. A. BOOK-KEEPING—STAGE III, MAY–JUNE, 1919.

(1) What is the object of a Deficiency Account in insolvency proceedings? Submit specimen of such an account by way of illustration. (2) Explain the difference between a Receipts and Payments Account and an Income and Expenditure Account. Give *pro forma* examples. (3) Compare and contrast the Balance Sheets necessary in:—(a) Private Partnership. (b) Private Limited Company. (c) Public Limited Company. (4) Enumerate three items, usually charged in the Profit and Loss Account of a trading firm, which would not be allowed in a return of profits assessable for Income Tax under Schedule D.

EXERCISE. On Jan. 1, 1918, S. Wilson, trading as the Vimy Engineering Company, agreed to take his manager, T. Brown, into partnership. At that date S. Wilson's Cap. A/c stood at £5,500. The partnership agreement provided that:—(a) As on Jan. 1, 1918, S. Wilson should be credited with £500, as representing the value of the Goodwill of the business. (b) T. Brown, instead of paying capital in cash, should, at the end of each year when profits were ascertained, transfer £500 from his Current to his Capital A/c, until the latter equalled that of S. Wilson; or, if his share of the profits did not reach £500, then the whole of it was to be credited to his Cap.

A/c. (c) Each partner should draw on account of profits £6 per week (this was done throughout the year). (d) T. Brown should be credited with 10% of the net profits at the end of each year (after charging interest on Capital) for managing the business. (e) Partners should be credited with 5% interest on their Cap. A/cs, but no interest should be charged on drawings. (f) Until such time as their Cap. A/cs were equal, Profits and Losses should be shared as follows: S. Wilson two-thirds, T. Brown one-third; afterwards they should share equally. In addition to the Ledger A/cs embracing the foregoing, the following balances appeared in the firm's books as on Dec. 31, 1918:—Manufacturing Expenses, £2,001 8s. 4d.; Trade Expenses, £1,010 10s. 6d.; Wages, £8,605 15s.; Rates, Taxes and Insurance, £390 8s. 4d.; Salaries, £450; Freehold Premises, £3,000; Purchases, £14,603 2s. 1d.; Sales, £29,604 0s. 5d.; Carriage and Delivery Expenses, £2,108 17s. 2d.; Bad Debts, £53 3s. 8d.; Discount Account (Credit Balance), £42 6s. 1d.; Plant, Machinery and Tools, £3,105 9s.; Stock (Jan. 1, 1918), £2,620 8s. 9d.; Purchase Returns, £280 18s. 4d.; Sales Returns, £106 16s. 3d.; Bank Overdraft, £116 9s. 1d.; Loan by Bankers, £2,000; Sundry Creditors, £8,543 16s. 4d.; Cash in Hand, £18 6s. 4d.; Sundry Debtors, £7,389 4s. 10d.

Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1918, and a B/S as on that date. When preparing the A/cs take into consideration the following:—(a) Provide for two days' wages, £38 9s. 4d. (b) Stock on hand and work in progress on Dec. 31, 1918, amounted to £3,293 9s. 8d. and £1,622 10s. 6d., respectively. (c) Create Reserve for Bad and Doubtful Debts of 2½ per cent. on Sundry Debtors. (d) Plant, Machinery and Tools on Dec. 31, 1918, were valued at £2,890. (e) £65 4s. 2d. was due to the Firm's Bankers for Interest on Loan and Overdraft. (f) £25 8s. was to be carried forward for unexpired insurances.

R. S. A. BOOK-KEEPING—STAGE III, MARCH, 1920.

(1) A. Chatenay bought £10,000 worth of goods from J. B. Clark in July, 1919, Clark's profit being £800. Chatenay lost several contracts, and, in Dec. 1919, asked Clark to re-purchase half of the goods for £5,000, which Clark did. Show how these transactions should appear in Clark's books.

(2) The Director's report of a Limited Company stated that "fresh working Capital had been raised during the year by means of a floating charge." Explain the meaning of this, and show, by *pro forma* entries, how it would affect the Company's B/S. (3) Explain what is meant by a "Stable Exchange Country." Submit brief rules for recording the transactions between the London Head Office of a firm and a branch situated in a Stable Exchange Country.

(4) Smith accepted an Accommodation Bill drawn by Robinson for £500 at three months, dated March 1, 1919. Robinson immediately discounted this bill at 5½% and handed £200 to Smith. On the same date Robinson accepted an Accommodation Bill drawn by Smith for £300 at three months, which was discounted at once at 6% by Smith, who handed £100 of the proceeds to Robinson. All discounting charges were to be equally borne. On May 1, 1919, Robinson made an arrangement with his creditors paying them 10s. in the £ on his debts. Show how these transactions would appear in Smith's books.

EXERCISE. The Altwood Manufacturing Company Ltd. was registered with a nominal Cap. of £200,000 divided into 100,000 6% Cum. Pref. Shares of £1 ea. and 100,000 Ord. Shares of £1 ea. £50,000 of the Pref. Cap. had been issued and fully paid. The whole of the Ord. Cap. had also been allotted and 10s. per share had been called and fully paid up, except that 2s. 6d. per share on 600 shares remained unpaid. 100 5% Debs. of £100 ea. were issued at 95 repayable in 10 years at par and were fully paid up as on July 1, 1919. In addition to the accounts necessary to record the foregoing the following balances were extracted from the books of the Company as on Dec. 31, 1919:—Factory Fuel and Lighting, £3,173; Freehold Factory, £49,860; Motor Lorries, £4,250; Preliminary Expenses Account, £585; Carriage, Freight and Dock Dues on Purchase, £2,642; Machinery and Plant, £19,850; Loose Tools, £2,940; Office Furniture, £560; Stock (Jan. 1, 1919), £26,344; £5,000 War Loan (Investment of Reserve Fund), £5,000; Reserve Fund, £5,000; Transfer Fees, £6; Purchases, £56,484; Purchases Returns, £941; Sales, £119,984; Sales Returns, £420; Factory Wages, £15,785; Office Salaries, £3,420; Directors' Fees, £500; Rates and Insurance, £324; Discount Account (Cr. Bal.), £86; Bad Debts written off, £307; Law Charges, £594; Factory Expenses, £1,144; Office Expenses and Incidentals, £247; Catalogues and Price Lists, £1,428; Advertising, £3,000; Packing Expenses, £954; Travellers' Salaries and Commission, £4,296; Sundry Drs., £18,400; Sundry Crs., £3,864; Cash in Hand, £186; Cash at Bank, £16,825; Interest Account (Cr. Bal.), £242.

Prepare Manufacturing and P. and L. Ac/s for the year ended Dec. 31, 1919, and B/S as on that date.

Before preparing the accounts, make the following adjustments:—

(1) Write 10% depreciation off Machinery and Plant; and 5% off Office Furniture. (2) Wages paid to workmen while making Loose Tools for the Company and repairing their Motor Lorries were £271 and £116 respectively. These amounts had been charged to Manufacturing Wages. (3) Stock was valued as on Dec. 31, 1919, at £27,821; Loose Tools at £2,000; and Motor Lorries at £3,000. (4) Write off Balance of Preliminary Expenses A/c. (5) Judgment in an action (the costs of which to date are included in "Law Charges") decided on Dec. 24, awarded the Company £327 costs, but no entries have been made in the Books. (6) Create Reserve for Bad Debts equal to 5% on the Sundry Drs. (7) Write 1/5th off Deb. Discount A/c. (8) Provide for half-year's interest due on the Debs., ignoring Income Tax.

R. S. A. BOOK-KEEPING—STAGE III, MAY, 1920

(1) The following transactions appeared in the accounts of the Realistic Picture Theatre Company, Limited. (a) A bonus of £50,000 was distributed amongst the shareholders in the form of 50,000 fully paid shares of £1 ea. (b) A sum of £1,000 was debited to P. and L. A/c as "Dilapidations Reserve," and separately invested. This amount represented 1/5th of an agreed sum of £5,000 due under a lease expiring 5 years hence. (c) £187 had been received during the year as interest on the Bank Deposit A/c, and credited to the P. and L. A/c. (d) £200 had been paid for a new piano to replace one purchased 12 months ago. The cost of the new piano had been

debited to P. and L. A/c, less £30 received for the old one. To what extent, if any, do the above transactions affect the Company's Return for liability for Income Tax under Schedule D?

(2) Briefly describe the procedure necessary for the forfeiture of shares. Submit *pro forma* entries recording the forfeiture of 500 shares of £1 ea., on which 5s. only had been paid, and the re-issue of the shares to a new member for a cash payment of 17s. 6d. per share.

(3) The Nom. Cap. of Crawfords, Ltd., was 250,000 shares of £1 ea., 200,000 issued and fully paid. In order to bring the book value of their assets more in accord with present values, the Company decided to:—(a) Add £20,000 to Plant and Machinery A/c. (b) Add £15,000 to Freehold Factory A/c. (c) Add £15,000 to Goodwill and Trade Marks A/c. (d) Issue the balance of the Ord. Share Cap., £50,000, as a bonus of 1 fully paid share of £1 for each 4 shares held. Submit the entries necessary to record these transactions in the Company's books.

(4) Explain the difference, if any, between the terms "Depreciation," "Wear and Tear," and "Fluctuation in Value," as applied to the assets of a manufacturing firm.

(5) The East Anglian Hotel Company, Ltd., was formed to purchase an old-established hotel, and was registered with a nominal Cap. of £110,000, divided into 50,000 Ord. Shares of £1 ea., 50,000 7% Cum. Pref. Shares of £1 ea., and 10,000 Def. Shares of £1 ea. All the Def. Shares were issued to the Vendors as the purchase price of the Goodwill. The Ord. Shares were issued at par, and the Pref. Shares at a premium of 2s. 6d. per share. Both classes of shares were fully subscribed and paid up, except that the final call of 5s. per share upon 1,000 Pref. Shares remained unpaid as on Dec. 31, 1919. On July 1, 1919, 200 6% Deb. of £100 each, repayable at par in 10 years, were issued at 95, fully subscribed, and paid up. In addition to the accounts represented by the foregoing, the following ledger balances were extracted from the Company's books, as on Dec. 31, 1919:—Freehold Hotel, £134,400; Furniture and Fittings, £22,800; Preliminary Expenses A/c, £800; *Purchases*:—Provisions, £38,726; Wines, Beer and Spirits, £22,462; Sundries, £624. Wages of Waiters and Staff, £8,986; Office Salaries, £827; Hotel Takings, £99,861; Laundry Expenses, £1,794; Bar Takings, £12,842; Billiards Takings, £416; Carriage Inwards, £347; Laundry Receipts, £1,912; Sundry Working Expenses, £1,296; Coal and Lighting, £842; Repairs to Furniture, etc., £2,441; Motor Omnibuses, £2,400; Advertising, £1,575; Discount Account (Cr. Bal.), £342; Omnibus Receipts, £1,284; Transfer Fees, £5; Stock (Jan. 1, 1919), £5,986; P. and L. A/c, Jan. 1, 1919 (Cr. Bal.), £13,842; Sundry Crs., £1,869; Sundry Drs., £798; Directors' Fees, £500; Cash at Bank, £4,864; Cash in Hand, £897; Pref. Share Dividend for half year to June 30, 1919, £1,750; Rates, Taxes and Insurance, £2,162; Bad Debts, £96. Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1919, and B/S as on that date. Before preparing the A/cs make the following adjustments:—(a) The Deb. Int. due on Dec. 31, 1919, had not been passed through the books. (b) As on Dec. 31, 1919, the following amounts were outstanding and had not been provided for:—Wages £126, Salaries £52, Excess Profits Duty £2,461. (c) Insurance paid in advance amounted to £148 as on Dec. 31, 1919. (d) Depreciate Furniture and Fittings, 15%, and Motor Omnibuses, 20%. (e) The Stock of Wines, Spirits and Provisions on hand

as on Dec. 31, 1919, was valued at £7,221. (f) Write £200 off Deb. Discount A/c, and £400 off Preliminary Expenses A/c. (g) Carry £7,500 to a Reserve A/c.

CHARTERED INSTITUTE OF SECRETARIES.

INTER., June 1911.

(For solutions see Key, pp. 660 *et seq.*)

(1) The following is the T. B. of A, a merchant, as on Dec. 31, 1910. Prepare his Trading A/c, P. and L. A/c and B/S; first writing £11 off Business Premises, and £32 off Office Furniture for Depreciation. Stock-in-trade at the close of the year was £950:—

Dr. Balances. A. Drawings A/c, £1,500; Business Premises, £591; Bank, £1,465; Office Furniture, £312; Stock, Jan. 1, 1910, £1,869; Purchases, £17,940; Discounts, £500; Sundry Drs., £4,172; Bills Receivable, £2,685; Salaries, £1,200; General Expenses, £2,000; Rates, Taxes, Insurance, £500; Bad Debts, £246; Cash in hand, £20. *Total, £35,000.*

Cr. Balances. A. Cap. A/c, £3,492; Sales, £24,618; Purchases Returns, £340; Commissions A/c, £750; Discounts, £350; Sundry Crs., £3,000; Bills Payable, £2,450. *Total, £35,000.*

(2) What are "closing entries"? Show in full the closing entries in connection with the facts stated in Q. (1). (3) What do you understand by "Depreciation"? When is it necessary to take Depreciation into account? (4) Define: (a) Acceptance; (b) Net; (c) Consignment; (d) Capital. (5) In some text-books the rule is laid down that the Receiving A/c is invariably debited, and the Paying A/c is credited. State the application of this rule to a Discounts A/c. (6) Prior to closing a set of books, you are instructed to reserve $2\frac{1}{2}\%$ on outstanding Drs.' and Crs.' balances for Discounts. Assuming the Drs.' balances amount to £4,000 and the Crs.' balances to £2,500, what entries would you make? State as clearly as you can the distinction between Capital and Revenue in connection with one of the following: (a) A Club; (b) A Colliery; (c) A Land Development Co.; (d) A Shipping Co. (8) A merchant has forwarded to a customer an invoice for goods, £48 3s. 9d., and the entry has been passed through his books. Afterwards it is discovered that the correct total is £47 13s. 9d. Suggest how you would correct the mistake. (9) On Jan. 1, 1911, A sold B goods value £100, and drew upon him at 3 mos. for that amount. On Feb. 1, 1911, A bought from C goods value £200, in payment he handed C B's acceptance and cheque for £97 10s.—allowing £2 10s. discount. On maturity B's Bill is dishonoured, and A has to take it up. Show the entries necessary to record the above transactions in A's books.

CHARTERED INSTITUTE OF SECRETARIES

INTER., December 1911.

(For solutions see Key, pp. 664 *et seq.*)

(1) From the following T. B., as on Oct. 31, 1911, of R. Thompson & Co., Ltd., prepare Trading A/c, P. and L. A/c, and B/S, as on Oct. 31, 1911. Write off Depreciation at 5% on Machinery and

Plant, 10% on Patents, and 15% on Loose Tools. Stock at Oct. 31, 1911, was £18,500 :—

Dr. Balances. Freehold Land and Buildings, £20,000; Plant and Machinery, £10,000; Loose Tools, £750; Patents, £5,000; Sundry Drs., £12,050; Goodwill, £9,000; Stock, Nov. 1, 1910, £16,750; Purchases, £21,250; Productive Wages, £7,500; Salaries of Staff, etc., £1,500; Rates and Taxes, £525; Heating and Light, £600; General Expenses, £1,450; Repairs, £525; Bad Debts, £150; Dividend paid Dec. 1910, £10,000; Cash in hand, £25; Cash at Bank, £11,400. *Total*, £128,475.

Cr. Balances. Issued Cap., 50,000 Shares f.p. £50,000; Sundry Crs., £19,250; Sales, £41,000; Balance P. and L. A/c, Nov. 1, 1910, £18,225. *Total*, £128,475.

(2) What is a "Bad Debts Reserve," and how should it be shown in a B/S? How may it affect the P. and L. A/c? (3) Give a suitable ruling for Petty Cash Book, and explain the best way to write it up. (4) Explain the following: (a) Share Capital; (b) Cum. Pref. Shares; (c) Reserve for Discounts on outstanding Debts. (5) On Mar. 25, 1911, Jones accepted Brown's bill for £650 at 3 mos. This bill was dishonoured, and Brown drew on Jones at 2 mos. for the total amt., plus interest at 5% p. a. This bill was met. Show entries in Brown's Ledger and Cash Book. (6) What is a Promissory Note? Give an example of one for £1,000. (7) The following mistakes were made in posting Co.'s books: (1) Wages, £100, posted as £150; (2) £50 debited to Cash Purchases, instead of to a Personal A/c; (3) Goods, £100, taken into Stock at Oct. 31, 1911, were not entered into Purchases Book till Nov. 2, 1911. What effect would these mistakes have on the Company's A/cs? (8) What is "Depreciation," and how should it be allowed for in making up A/cs? (9) Rule suitable form of Cash Book and enter the following, assuming all Cash is paid into the Bank daily, and all remittances made by cheque: 1911, Jan. 1, Balance at Bank, £200 7s. 10d.; Jan. 2, Recd. of Jones & Co., £41 6s. 10d. (Discount allowed, £2 3s. 2d.); Jan. 2, Cash Sales, £26 4s. 2d.; Jan. 3, Robinson settled A/c for £125 (allowed him 3% Dis.); Jan. 3, Drew cheque for Wages, £42 3s. 8d.; Jan. 4, Paid Brown, £56 7s. 2d.; Jan. 4, Paid to Petty Cash, £10; Jan. 4, Recd. Cash from Harris, £26 8s. 9d.; Jan. 5, Paid Rent, £120.

CHARTERED INSTITUTE OF SECRETARIES.

INTER., June 1912.

(For solutions see Key, pp. 669 *et seq.*)

(1) Briefly describe the most suitable system of keeping Petty Cash in a commercial house. Rule specimen form, and enter the following items: Jan. 1, 1912, Balance in hand, £10 12s. 6d.; Jan. 2, Paid Bus fares, 6d., Bought Brown Paper, 1s. 6d., and String, 1s.; Jan. 3, Bought Stamps, 10s., Paid Telegrams, 1s. 2d.; Jan. 4, Paid Housekeeper's A/c, 15s. 3d.; Jan. 5, Bought Office Stool, 5s. 9d., and paid A/c for repairs to Furniture, 13s. 2d.; Jan. 6, Paid Bus fares, 7d., and cost of Cable, 19s. 6d. Close the Cash Book and bring down balance. (2) Briefly describe how you would prepare a T. B. from a set of double-entry books. In which column of the T. B. would you enter the balances of the following

A/cs: Sales A/c, Returns Inwards A/c, Bad Debt Reserve A/c, Discounts allowed, Depreciation A/c? (3) For what purpose is the Journal used? R. Lyons commenced business on Jan. 1, 1912, with the following assets: Cash at Bank, £1,000; Freehold Premises, £2,500; Machinery, £900; Stock in hand, £1,200; *Debts due to him*: D. Perkins, £50; C. Rambler, £12. *Creditors*: A. Barbier, £540; W. J. Grant, £194; C. Liberty, £228; G. Goldfinch was loan creditor for £2,000. Prepare the necessary Journal entry to open R. Lyons' books as on Jan. 1, 1912. (4) Briefly describe the difference between a B/E and a Cheque. Rule specimen form of Bills Payable Book, and enter the following bills: 1912, Jan. 2, Accepted J. Roberts' draft payable two months in his own favour, dated Jan. 2, 1912 (Bill No. 21) for £250; Jan. 4, Gave P. Blair my acceptance in his favour, of even date, due in 3 mos. (Bill No. 22), for £200; Jan. 5, Accepted E. Malcolm's draft, dated Jan. 4 (Bill No. 23), due 10 days after date, for £100. All these bills were payable at the Union Bank, Ltd., London. (5) What is the difference between Capital and Revenue Expenditure? Give two examples of each kind. (6) On Dec. 31, 1911, the following T. B. was extracted from the books of the Brankstone Patent Medicine Co., Ltd. The Company was registered on July 2, 1907, the Authorized Capital being £100,000 Ord. Shares £1 ea. Prepare from these figures a P. and L. A/c for the year ended Dec. 31, 1911, and a B/S as on that date subject to the following adjustments: (a) Bad Debt Reserve to be increased to £2,000; (b) Depreciation, 5% on Premises and 10% on Plant and Machinery.

Dr. Balances. Freehold and Leasehold Premises, £9,634; Plant and Machinery, £9,292; Goodwill, £22,000; Investments, £6,457; Dividend paid, Mar. 1, 1911, £8,450; Debenture Int., £600; Rent, Rates, Taxes and Insurance, £1,987; Repairs and Renewals, £864; Salaries, £6,185; Directors' Fees, £1,500; General Expenses, £1,736; Advertising, £4,863; Sundry Drs., £26,397; Stock on hand, Dec. 31, 1911, £14,683; Cash at Bank and in hand, £14,614. *Total*, £129,262.

Cr. Balances. Ord. Share Cap. (65,000 Shares £1 ea. fully paid), £65,000; Debentures, £12,000; P. and L. A/c balance, Dec. 31, 1910, £10,416; Reserve A/c, £5,000; Balance from Trading A/c, being Gross Profit for year, £25,799; Interest on Investments, £241; Sundry Crs., £9,806; Reserve for Bad and Doubtful Debts (Dec. 31, 1910), £1,000. *Total*, £129,262.

CHARTERED INSTITUTE OF SECRETARIES.

FINAL, June 1912.

(For solutions see Key, pp. 672 *et seq.*)

(1) Is there any difference between a Receipts and Payments A/c and an Income and Expenditure A/c? From the following figures prepare the first annual A/cs of the Blankshire Rose Society for the year ended Dec. 31, 1911: Donations, £500; Members' Subscriptions, £734; Sales of Publications, £138; Interest on Investment, £47; Rent and Office Expenses, £280; Secretary's Salary and Travelling Expenses, £300; Expenses of Annual Show (less receipts), £510; Printing, £158; Stationery, £38; Postages, £21; Cash at

Bank—Deposit, £200; Current A/c, £221. A legacy was left to Society during year, and was invested in 5% Debenture Stock of Western of Canada Rly., £1,000. The following A/cs were unpaid on Dec. 31, 1911: Stationery, £10; Printing, £22; Rent, £30.

(2) On June 1, 1911, L. Hillingdon, 10 Mansfield Place, Thorpe Bay, applied for 500 £1 Ord. Shares in Eldorado (Nigeria) Tin Mining Co., Ltd., and paid 5s. per share on application. These shares, numbered 15,254 to 15,753, were duly allotted to him on June 5. On June 6 he sent cheque to the Company's bankers for 5s. per share due on allotment. On July 1, he paid 1st call of 5s. per share, and on Aug. 1, 2nd call of 5s. On Sept. 3, he purchased, through his stockbrokers, 1000 shares at 21s. per share, free of all charges. On Sept. 5, the transfer of these shares was approved by directors. On Oct. 8, he sold, through his stockbrokers, 800 shares at 22s. 6d., free of all charges, the transfer being approved by the directors on Oct. 12. Show rulings of the statistical books of the Co. in which you would enter these transactions, and make the necessary entries. Show the above transactions, also, as they would appear in L. Hillingdon's books.

(3) When closing the books of a Ltd. Company, how would you deal with the following items: (a) 50 £1 shares, on which only 10s. has been paid, the shares having been forfeited, in consequence, by the directors; (b) £1,000, being portion of Reserve Fund, invested in Ltd. Company, whose £1 shares now stand at 12s. per share; (c) Remittance of £500 sent Dec. 30, 1911, to Company's Bristol Branch, did not reach Bristol till Jan. 1, 1912, and did not, therefore, appear in the T. B. forwarded from the branch to the Head Office at the close of the year.

(4) The Rêve d'Or Rubber Co., Ltd., own a plantation in Borneo. The rubber is shipped to London, and sold by public tender. The expenditure in Borneo is in local currency, and Monthly Cash Statements are sent to the London Office. State briefly how you would deal with the question of currency when writing up the Head Office books.

(5) The following T. B. was extracted from the books of Ravary, Ltd. (Nom. Cap., 1,000 Ord. Shares, £10 ea.). Prepare from these figures a Trading A/c and P. and L. A/c for the year ended Dec. 31, 1911, and a B/S as on that date. Make the following adjustments: Reserve for Bad and Doubtful Debts, £500; Depreciation 10% off Plant and Machinery and 5% off Furniture and Fittings; make the necessary Reserve for 1 qr.'s rent, £50, due at the end of year; Carry forward £13, being amount of rates paid in advance.

Dr. Balances. Sundry Drs., £6,240 1s. 1d.; Stock (Dec. 31, 1910), £4,271 12s.; Plant and Machinery, £1,272 10s.; Purchases, £10,245 1s. 8d.; Sales Returns, £310 6s. 2d.; Furniture and Fittings, £136; Carriage, £149 4s. 4d.; Wages (Manufacturing), £4,171 16s. 10d.; Salaries, £1,270; General Expenses, £426 9s. 3d.; Rent, Rates and Taxes, £258 19s. 10d.; Lighting and Heating, £92 4s. 2d.; Insurance, £15 6s. 7d.; Repairs, £48 15s. 11d.; Bad Debts, £82 4s. 1d.; P. and L. A/c balance (Dec. 31, 1910), £152 4s. 4d.; Discount A/c balance, £6 2s. 10d.; Cash at Bank and in Hand, £1,166 3s. 4d. *Total*, £30,315 12s. 5d. The Stock on Dec. 31, 1911, was valued at £3,746 14s. 1d.

Cr. Balances. Capital (840 Shares £10 fully paid, £8,400; Sundry Crs., £3,160 12s. 7d.; Purchases Returns, £123 0s. 6d.; Sales, £18,631 19s. 4d. *Total*, £30,315 12s. 5d.

CHARTERED INSTITUTE OF SECRETARIES.

INTER., December 1912.

(For solutions see Key, pp. 676 *et seq.*)

(1) Rule a form of Returns Outwards Book and enter the following returns: 1912, Sept. 2, Returned to Griffiths & Co., 6 pcs. Sheeting, wrong quality, £6; Sept. 3, Returned to Laing & Co., 3 cases Fancy Goods, damaged, £4 10s.; Sept. 4, Returned to Hervey Sons & Co., 6 Sable Skins, moth-eaten, £18; Sept. 5, Returned to Bartlett & Son, 2 bales Woollen Goods, not to sample, £12 10s. (2) What are the priorities as to Dividends and Capital Rights of holders of the following: (a) Ord. Shares; (b) Cum. Pref. Shares; (c) Non-Cum. Pref. Shares; (d) Debentures?

(3) S. Taylor stood as debtor in A. Martin's books on Mar. 31, 1912, for £50. On June 5, 1912, S. Taylor became bankrupt; his estate realized sufficient to pay (on Aug. 18, 1912) a 1st and final dividend of 12s. 6d. in the £. What is meant by a 1st and final dividend? How much did A. Martin receive from the estate of S. Taylor; and what entries would you expect to find in his books?

(4) The Worktop Ironworks Co., Ltd., desire to open an A/c with the Midland District Banking Co. Describe the formalities required to open the A/c. (5) How would you deal (in the books of a Ltd. Co.) with Inc. Tax deducted when paying dividends to shareholders?

(6) The following T. B. was extracted from the books of Harris, Phillips & Barnett, trading as the Elite Clothing Co., on June 30, 1912:—

Dr. Balances. Drawing A/cs: S. Harris, H. Phillips, and I. Barnett, £500 ea.; Leasehold Premises, £4,812 11s. 10d.; Fixtures and Fittings, £1,067 16s. 8d.; Bills Receivable, £40; Stock (June 30, 1911), £2,815 9s. 7d.; Salaries, £540 12s.; Purchases, £8,410 12s. 4d.; Sales Returns, £144 3s. 6d.; Rent, Rates and Taxes, £1,265 9s. 3d.; Insurance, £142 17s. 4d.; Advertising, £1,063 15s. 6d.; Repairs, £1,134 9s. 7d.; Wages, £2,833 9s.; Trade Expenses, £97 2s. 4d.; General Expenses, £135 5s. 5d.; Carriage, £166 3s. 5d.; Bank Charges, £26 9s. 4d.; Cash in hand, £238 19s. 9d.; Sundry Drs., £2,109 18s. 2d. *Total*, £28,545 5s.

Cr. Balances. Capital A/cs, as on June 30, 1911: S. Harris, £4,114 3s. 4d., H. Phillips, £3,849 13s. 4d., I. Barnett, £3,357 3s. 4d.; Bills Payable, £230; Reserve for Bad and Doubtful Debts as on June 30, 1911, £111 6s. 6d.; Purchases Returns, £305 6s. 2d.; Sales, £15,666 10s. 6d.; Discount A/c balance, £16 9s. 9d.; Bank balance, £62 18s. 10d.; Sundry Creditors, £831 13s. 3d. *Total*, £28,545 5s.

Stock on hand, June 30, 1912, £3,013 1s. 1d.; Bills under Discount, £105. Prepare Trading and P. and L. A/cs for the year ended June 30, 1912, and B/S as on that date, subject to the following adjustments: (a) Each partner to be credited with 5% int. on the balance of his Capital A/c as on June 30, 1911; no interest to be calculated on drawings; (b) Reserve 5% on Sundry Drs. for Bad Debts; (c) Depreciation 5% off Leasehold Premises and 15% on Fixtures and Fittings; (d) Carry forward £22 Insurance unexpired; (e) The Repairs include £1,000 for Shop Improvements to be written off over 4 yrs.

CHARTERED INSTITUTE OF SECRETARIES.

FINAL, December 1912.

(For solutions see Key, pp. 678 *et seq.*)

(1) The Brixham Steam Drifter Co., Ltd., was formed on Sept. 2, 1912 (Nom. Cap., £60,000 in £1 Shares). An Agreement was entered into to take over the steam trawlers *Effie* and *Mabel* from the Paignton S.S. Co., Ltd., for £8,000—£3,000 payable in 5% debentures, £1,500 in cash, and £3,500 in Ord. Shares, fully paid, to be valued at par. On Sept. 5, the Company offered for public subscription 20,000 Ord. £1 Shares at a premium of 5s., payable as to 10s. per share (including premium) on application, and as to 5s. per share on allotment. The balance of 10s. was payable on Oct. 1, 1912. The whole issue was taken up and duly allotted Sept. 10. The cash due on allotment was duly paid Sept. 13. All monies due on Final Call A/c were duly paid, except 10s. per share on shares held by John Rutland (150) and William Reve (300). These shares were forfeited Nov. 1, and re-issued on Nov. 10 to R. G. Griffiths upon payment of the amount due on 450 shares. The Agreement with the Paignton S.S. Co., Ltd., was duly carried out on Oct. 1, 1912. Make the entries necessary to show the above transactions in the Brixham Steam Drifter Co.'s books.

(2) The book value of Atlas, Hercules & Co.'s Plant stood at £7,040, while there was a credit balance of £3,600 on Depreciation Reserve A/c. It was decided to replace the entire Plant, and a tender of £9,500 for a new installation received from the International Machinery Co., Ltd., was accepted. The installers utilized part of the existing plant, and made an allowance of £400 on the contract price. The remainder of the old plant realized £2,000 at auction. Show the entries necessary to record these transactions in Atlas, Hercules & Co.'s books, and state how you would deal with the balance remaining on the old Plant A/c.

(3) How would you deal with the following items when preparing a P. and L. A/c and B/S: (1) Bills Receivable under Discount; (2 and 3) Reserves for Bad and Doubtful Debts on (a) Jan. 1, 1911, and (b) Dec. 31, 1911; (4) Loss of Stock by Fire; (5) Premium received on issue of New Shares.

(4) Markem, Low & Co., Boot and Shoe Retailers, have a Head Office and 2 branches (A and B). The Head Office keeps all the books and receives all goods bought. Goods sent to branches are charged out to them at selling price, and all sales at branches are for cash. Each branch pays its own Wages and Petty Expenses out of cash takings. The following returns for 1st week of Jan. 1912 were received from the branches by the Head Office:—
A Branch: Stock on hand, Jan. 1, 1912, £550; Goods received from Head Office, £75; Sales, Jan. 1-6, £90, and Stock on hand, £535; Wages, £10; Window Cleaning, £1; Cleaning, 10s.; Cash remitted to H. O., £78 10s. *B Branch*: Stock on hand, Jan. 1, 1912, £740; Goods received from H. O., £80; Sales, Jan. 1-6, £105, and Stock on hand, £715; Wages, £14; Cleaning, 10s.; Electric Lamps, 10s.; Cash remitted to H. O., £90. How would you deal with the foregoing returns in firm's books? Give specimen accounts.

(5) The following T. B. was extracted, June 30, 1912, from the

books of M. Roby & G. Cran, partners as manufacturers. Prepare Trading and P. and L. A/cs for the year ended June 30, 1912, and a B/S as on that date, taking the following into consideration: (a) The partnership deed provides for 5% p. a. interest on Capital but not on Drawings; (b) Profits and Losses are to be shared as follows: M. Roby three-fifths, G. Cran two-fifths; (c) Reserve for Bad Debts to be increased to £750; (d) Depreciation 10% on Plant, Machinery and Fixtures A/c; (e) Insurance unexpired, £19 2s. 7d., and Rates paid in advance, £42 10s.; (f) Leasehold Premises A/c is being written off in equal annual instalments of £190; (g) Stock on June 30, 1912, was valued £2,691 14s. 11d., and Work in Progress at £254 2s. 6d.

Dr. Balances. M. Roby, Drawings A/c, £427 10s.; G. Cran, Drawings A/c, £372 4s.; Bad Debts, £51 6s. 1d.; Sundry Drs., £3,721 15s. 11d.; Purchases, £10,721 16s. 3d.; Sales Returns, £250 4s. 4d.; Plant, Machinery and Fixtures, £1,267 19s.; Leasehold Premises, £950; Manufacturing Wages, £3,982 0s. 9d.; Stock, June 30, 1911, £3,891 4s. 1d.; Work in Progress, June 30, 1911, £370 16s. 10d.; Insurance, £59 5s. 9d.; Rates and Taxes, £240 15s. 8d.; Carriage Inwards, £350 2s. 6d.; Carriage Outwards, £196 14s. 11d.; Salaries, £427 13s. 4d.; Repairs, £109 4s. 2d.; Lighting and Heating, £47 5s. 3d.; Discount A/c, £6 7s. 2d.; General Expenses, Postage, etc., £247 16s. 5d.; Cash at Bank, £446 7s. 5d.; Cash in hand, £11 10s. 2d. *Total*, £27,700.

Cr. Balances. M. Roby, Capital A/c (including £500 paid on Mar. 31, 1912), £4,126 12s. 6d.; G. Cran, Capital A/c, £2,101 1s. 3d.; Reserve for Bad Debts, £450; Sundry Crs., £2,112 2s. 7d.; Purchases Returns, £120 5s. 2d.; Sales, £18,790 18s. 6d. *Total*, £27,700.

CHARTERED INSTITUTE OF SECRETARIES.

INTER., June 1913.

(For solutions see Key, pp. 682 *et seq.*)

(1) What is a Trial Balance? Does the agreement of the totals of the T. B. prove the absolute correctness of the posting? Give two instances of errors which may have occurred in the books but would not affect the agreement of the T. B. totals.

(2) The Delhi Tea Co., Ceylon, consigned to P. Blair & Son, London, 100 chts. Tea for sale on commission (including *del credere*) of 2%. Blair & Son sold the tea for £95, less 2½% dis. for cash. The following charges were incurred: Landing charges, £6 1s. 2d.; Brokerage, £3 1s. 2d.; Fire Insurance, £2 15s.; Warehouse Rent, £7 2s. 1d.; Marine Insurance, £4 9s. 10d. Prepare the A/S rendered by Blair & Son to the Delhi Tea Co., showing the result of the consignment.

(3) What is the effect of marking a B/E "not negotiable"? On Jan. 2, 1913, George Reimers received from Andre Gammon a duly accepted bill for £150, dated Jan. 1, 1913, payable in 3 mos. The bill was met at maturity. Give the entries which would appear in George Reimer's books, including his Bills Receivable book.

(4) What is the difference between Fixed and Floating Assets? Name three types of each, and explain the difference, if any, in the need for provision of depreciation upon the two types. (5) State whether you would enter the following items in the Trading A/c

or in the P. and L. A/c and why: (a) Manufacturing Wages; (b) Carriage Outwards; (c) Depreciation of Plant and Machinery; (d) Discounts allowed to Customers.

(6) The Wymering Tea Co., Ltd., was formed in 1896 (Nom. Cap., 2,000 £10 Ord. Shares; 1,500 fully paid shares issued). The following is the T. B. extracted from the books as on Mar. 31, 1913:—

Dr. Balances. Office Furniture, £180 15s. 8d.; Bills Receivable, £70; Plant and Machinery A/c, £525 10s.; Discount A/c (balance), £83 14s. 9d.; Stock, Mar. 31, 1912, £8,242 14s. 2d.; Purchases, £19,457 12s. 10d.; Wages, £825 7s. 8d.; Sales Returns, £315 13s. 7d.; Trade Expenses, £212 15s.; Advertising, £1,287 13s. 4d.; Bank Charges, £10 0s. 1d.; Insurance, £65 2s. 3d.; Salaries, £1,010 14s. 1d.; Duty, £9,826 11s. 10d.; Rent, Rates and Taxes, £579 16s. 3d.; Carriage Inwards, £404 16s. 3d.; Carriage Outwards, £537 16s. 1d.; Travellers' Salaries, Commission and Expenses, £847 19s. 7d.; General Expenses, £342 7s.; Cash in hand, £41 10s. 7d.; Cash at Bank, £427 0s. 2d.; Sundry Drs., £12,433 18s. 11d.; Dividend paid, £900. *Total*, £58,629 10s. 1d.

Cr. Balances. Share Capital, £15,000; Reserve A/c, £3,000; Bad Debt Reserve as on Mar. 31, 1912, £197 6s. 2d.; Purchase Returns, £277 7s. 1d.; Sales, £30,759 17s. 3d.; Sundry Crs., £8,184 14s. 6d.; P. and L. A/c (balance), £1,210 5s. 1d. *Total*, £58,629 10s. 1d.

Prepare Trading and P. and L. A/cs for the year ended Mar. 31, 1913, and B/S as on that date, after taking into consideration the following: Bad Debt Reserve increased to 5% on the Debtors; Depreciation 5% on Office Furniture and 10% on Plant and Machinery; Stock on Mar. 31, 1913, valued at £11,254 9s. 5d.

CHARTERED INSTITUTE OF SECRETARIES.

FINAL, June 1913.

(For solutions see Key, pp. 684 *et seq.*)

(1) Extracts from the B/S (Dec. 31, 1912) of G. MacArthur & Co., Ltd., are given below. Have you any comments to make on these items? *Liabilities*: Depreciation Reserve Fund, £3,825; Loan on Mortgage of Freehold Property, £2,000. *Assets*: Machinery and Plant at Cost as on 31/12/1900, £12,500; Goodwill at Cost as on 31/12/1900, £10,000 (less Depreciation written off to date, £3,000); Preliminary Expense, A/c as on 31/12/1900, £850; Freehold Property, £3,000; Calls in arrear, £250.

(2) Briefly describe the Slip System of ledger posting. In what circumstances is this system advantageous?

(3) How would you deal with the undermentioned items when closing the books of Rayon d'Or, Ltd., for year ended Dec. 31, 1912: (a) Fire Insurance Premium (£150) covering risk on Company's Works for 12 mos.; (b) Patents A/cs debit balance, £3,085, representing (1) cost of a patent bought by the Company in 1903, (2) Renewal Fees and Expenses debited to A/c from time to time, £85; (c) 100 5% £100 Debentures, repayable Dec. 31, 1920, had been issued during the year at 95. Expenses of issue (apart from the discount) were £550; (d) 500 fully paid £1 shares in the Sandakan Syndicate, Ltd., had been issued to the Rayon d'Or Co. as their share of profits of a joint flotation.

(4) Rule form of Columnar Cash Book suitable for recording expenditure only of a Life Assurance Co., and enter six items of differing nature.

(5) The Brown Manufacturing Co., Ltd., was registered with Nom. Cap., £30,000 (3,000 Shares £10 each). The whole of the shares were issued to the public, and 2,750 were applied for and duly allotted. On Dec. 31, 1912, the shares were fully called and paid up, except £5 per share on 750 shares. In Dec. 1912 there was an issue of 200 5% £100 Debentures, carrying interest from Jan. 1, 1913. All these Debentures were allotted and paid in full prior to Dec. 31, 1912. In addition to the balances represented by the above transactions, the undermentioned balances appeared in the books as on Dec. 31, 1912: Sundry Drs., £12,649 14s. 6d.; Sundry Crs., £6,599 3s. 11d.; Purchases, £13,642 12s. 2d.; Purchases Returns, £501 11s. 10d.; Sales, £27,426 6s. 7d.; Sales Returns, £213 4s. 7d.; Plant and Machinery, £8,747 16s. 7d.; Fixtures and Fittings, £615 10s.; Rates and Taxes, £491 12s. 1d.; Insurance, £72 14s. 6d.; Carriage Inwards, £462 11s. 11d.; Carriage Outwards, £611 2s. 4d.; Salaries, £850; Manufacturing Wages, £7,647 14s. 7d.; Directors' Fees, £150; General and Office Expenses, £437 16s. 3d.; Bad Debts, £146 14s. 11d.; Freehold Premises, £12,000; Stock, Dec. 31, 1911, £9,846 14s.; Loose Tools, £247 10s.; Repairs, £191 3s. 7d.; Lighting and Heating, £42 0s. 6d.; Fuel and Power, £931 6s. 2d.; Discount A/c (debit balance), £124 16s. 9d.; Cash at Bank, £2,314 4s. 2d.; Cash in hand, £91 6s. 7d.; Bills Receivable, £1,216 10s. 10d.; P. and L. A/c (debit balance), £4,532 5s. 4d.

Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1912, and a B/S as on that date. When preparing these A/cs take the following into consideration: (1) Depreciation 10% off Plant and Machinery and 5% off Fixtures and Fittings; (2) Reserve for Bad Debts (5% on amount of debts) to be created; (3) Insurance unexpired, £20 17s. 6d.; Rates paid in advance, £57 10s.; (4) Reserve 2½% to be made for discounts on Drs. and Crs.; (5) Bills Receivable (discounted, but not matured, Dec. 31, 1912), £742; (6) Stock, Dec. 31, 1912, valued £8,647 2s. 1d., and Loose Tools, £317 4s.

CHARTERED INSTITUTE OF SECRETARIES.

INTER., December 1913.

(For solutions see Key, pp. 686 *et seq.*)

(1) What is the difference between a Balance Sheet and a Statement of Affairs? Explain in what circumstances the latter document would be prepared. (2) On Jan. 6, 1913, T. Robinson draws on J. Brown at 2 mos. for £100. The bill is duly accepted, and paid into bank for collection, but is dishonoured on maturity. On March 12 a new bill is given for the same term and amount, with the addition of £1 16s. interest and bank charges. Give the entries in T. Robinson's books. (3) Explain: (a) Cum. Pref. Shares; (b) Debentures; (c) Ord. Shares; (d) Deferred Shares. In what circumstances are the last usually issued?

(4) The Cooper Colliery Co. took a lease of a coal mine for 20 yrs. from Jan. 1, 1908, at a royalty of 6d. per ton upon the output, with a minimum rent of £150 p.a., and with power to recoup "short workings" over the first 5 yrs. of lease. Explain this,

illustrating your answer with an example, assuming the output for the first 2 yrs. of the lease was 5,000 and 9,000 tons respectively.

(5) On June 30, 1913, the Cash Book of A. B. showed that £647 6s. 11d. should be in his banker's hands on that date. It is found that the balances of the C/B and Pass Book do not agree—cheques (£97 4s. 2d.) drawn by A. B., and entered in the C/B before June 30, had not been presented for payment, and cheques received June 30, and paid into the bank that day, had not been collected until afterwards. Prepare a statement showing the balance appearing in A. B.'s Pass Book on June 30.

(6) J. Greenlay, R. Dean were equal partners in a manufacturing business. On Dec. 31, 1912, the following T. B. was extracted:—

Dr. Balances. Machinery and Plant, £11,114 4s. 6d.; Stock, Dec. 31, 1911, £6,506 16s. 1d.; Purchases, £22,411 10s. 5d.; Sales Returns, £214 14s. 9d.; Salaries, £1,114; Wages, £4,419 10s. 6d.; Drs., £9,220 8s. 11d.; Carriage Inwards, £112 10s.; Carriage Outwards, £216 7s. 4d.; Rent, Rates, Taxes, Insurance, £1,214 15s. 10d.; Discount A/c, £117 4s. 9d.; J. Greenlay, Salary, £600; R. Dean, £400; Repairs, £214 1s. 8d.; Lighting and Heating, £472 14s. 4d.; Bills Receivable, £92 4s. 7d.; Cash at Bank, £3,741 14s. 4d.; Cash in hand, £14 7s. 6d. *Total*, £62,197 5s. 6d.

Cr. Balances. J. Greenlay Cap. A/c, £12,000; R. Dean Cap. A/c, £9,000; Purchases Returns, £1,319 4s. 4d.; Sales, £35,694 12s. 10d.; Crs., £3,469 1s. 3d.; Bills Payable, £714 7s. 1d. *Total*, £62,197 5s. 6d.

Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1912, and a B/S as on that date, after taking the following into consideration: (a) Stock, Dec. 31, 1912, agreed at £7,400 4s. 6d.; (b) Each partner to be credited with 5% interest on his Capital; (c) Depreciation 10% on Plant and Machinery; (d) Reserve for Bad Debts to be created—2½% of debts; (e) Rates paid in advance and Insurance unexpired amounted to £114 4s. 10d.

CHARTERED INSTITUTE OF SECRETARIES.

FINAL, December 1913

(For solutions see Key, pp. 688 *et seq.*)

(1) What is the meaning of "Quinquennial Valuation" in Life Assurance A/cs? What is the object of valuation? (2) An English firm has a foreign branch whose books are kept in the local currency, which is subject to considerable fluctuations. What rates of conversion would you employ when amalgamating Head Office and Branch T. Bs. at the end of the financial year in connection with the following items appearing in the Branch T. B.: (a) Fixed Assets: (1) Bought prior to the beginning of the trading period under review, (2) Bought during the trading period; (b) Floating Assets; (c) P. and L. A/c balances; (d) Remittances to and from H. O. (3) When preparing the B/S of a Ltd. Co. as on Dec. 31, 1912, how would you treat the following: (a) Bills Receivable (£500) discounted, but not due till after Dec. 31, 1912; (b) 100 £1 shares held in another Co. on which only 10s. per share had been called up; (c) Balance of £400 paid for an unexercised option to purchase Nysar Tabak Estate for £12,600, such option expiring Jan. 5, 1913.

(4) To what classes of undertaking is the "Double Account"

System applied? Give a specimen B/S prepared on this system, and briefly explain the principal items you insert.

(5) C. Trevor and J. Walsh are in partnership as manufacturers, their joint capital being £40,000. The Partnership Agreement provides: (i) 5% interest on capital, but interest not to be charged on drawings, this interest to be credited to Partners' Drawings A/cs; (ii) C. Trevor to have salary of £500 p. a. out of net profits when ascertained; (iii) Balance of profits divided between Partners in proportion to the amounts standing to the credit of their Cap. A/cs, viz. three-fifths and two-fifths respectively; (iv) All Profits to be credited to Partners' Drawings A/cs in order to maintain their Cap. A/cs at the original figures.

In addition to the balances of the Cap. A/cs the following balances appeared in the books on Dec. 31, 1912: Machinery and Plant £15,210 12s. 6d.; Fixtures and Fittings, £2,750 15s.; Purchases, £22,654 18s. 6d.; Purchases Returns, £1,475 4s. 1d.; Sales, £48,827 18s. 10d.; Sales Returns, £1,046 11s. 6d.; Bad Debts, £219 6s.; Sundry Drs., £13,061 10s.; Sundry Crs., £5,799 14s. 11d.; Stock, Dec. 31, 1911, £6,536 7s. 3d.; Freehold and Leasehold Premises, £12,000; Manufacturing Expenses, £1,041 10s.; Bad Debts Reserve (Dec. 31, 1911), £402 4s. 2d.; General and Office Expenses, £741 14s. 10d.; Manufacturing Wages, £13,347 14s. 11d.; Salaries, £1,910; Travelling Expenses, £546 12s. 8d.; Rent, Rates, Taxes, Insurance, £858 15s. 3d.; Discount A/c (excess of discount allowed over discount received), £114 4s. 9d.; Carriage Inwards, £564 0s. 7d.; Carriage Outwards, £1,275 15s. 6d.; Advertising, £471 14s. 7d.; C. Trevor Drawings A/c (Cr. balance), £114 4s.; J. Walsh Drawings A/c (Dr. balance), £92 6s. 8d.; Cash at Bank, £2,147 11s. 6d.; Cash in hand, £27 4s.

Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1912, and a B/S as on that date, taking into consideration the following: (a) Depreciation, 10% off Plant and Machinery and 5% off Fixtures and Fittings; (b) Create Leasehold Redemption A/c and transfer thereto £500; (c) Increase Bad Debts Reserve to an amount equivalent to 5% of Sundry Drs.; (d) Insurance unexpired and Rates paid in advance amounted on Dec. 31, 1912, to £196 4s.; (e) Stock agreed at £6,912 14s. 10d.

CHARTERED INSTITUTE OF SECRETARIES.

INTER., Junc, 1914.

[For solutions see Key, pp. 690 *et seq.*]

(1) When preparing the annual A/cs of a business, where would you expect to find the following information, and how would you deal with it in the A/cs under preparation?: (a) Goods returned by customers during year £158; (b) Goods sent "on Sale or return" to Peter Veldt, Cape Town, invoiced at £125, cost price £100; Bank Overdraft £520.

(2) On Mar. 16, 1914, Robert Radbourne, London, shipped dry goods (£500) to his customer L. Rodrigues, Rio. The usual trade credit terms are 4 mos., but Radbourne wants speedier payment. Suggest a method of obtaining this.

(3) Miles Standish's B/S, as on Dec. 31, 1913, was as follows:—

BALANCE SHEET, Dec. 31, 1913.

	£		£
Capital	3,000	Sundry Assets . . .	8,400
Crs.	4,500	Cash in hand . . .	100
Bank overdraft . .	1,000		
	<hr/>		<hr/>
	£8,500		£8,500
	<hr/>		<hr/>

Standish admits Hugh Dickeson into partnership as on Jan. 1, 1914. Dickeson is to bring in £1,000 cash as capital. Having no further funds, Dickeson is unable to pay Standish the agreed premium of £1,000 for admission as partner. It is, therefore, arranged that a Goodwill A/c for that amount shall be raised in the books of the new firm. Give the B/S of the new firm as on Jan. 1, 1914, after completion of the above transaction.

(4) A firm of tobacco manufacturers making (a) cigarettes; (b) cigars; (c) loose tobacco, journalized all purchases. A separate trading A/c was kept in the ledger for each department, and for Machinery and Plant A/c and for Buildings A/c. Suggest a more expeditious and economical method of dealing with the firm's purchases. Illustrate your answer.

(5) Robert Eastwood and George Sutton are equal partners in a manufacturing business. The T. B. extracted as on Dec. 31, 1913, was as follows:—

Dr. Balances. R. Eastwood Drawings, £1,200; G. Sutton Drawings, £800; Freehold Works, £11,000; Stock, Jan. 1, 1913, £3,800; Work in Progress, £1,500; Plant and Machinery, £5,600; Purchases £19,820; Bills Receivable, £740; Sales Returns, £105; Manufacturing Wages, £1,464; Salaries, £1,821; Rates and Taxes, £440; Manufacturing Expenses, £860; Carriage Inwards, £421; Carriage Outwards, £320; Office Expenses, £641; Cash in hand, £264; Discount A/c, £304; Sundry Drs., £4,148; Bad Debts, £501; Advertising £1,981; Insurance, £180; Interest A/c, £140. *Total, £58,050.*

Cr. Balances. R. Eastwood, Cap. A/c, £10,000; G. Sutton, Cap. A/c, £5,000; Purchases Returns, £570; Bills Payable, £860; Sales, £32,980; Bad Debts Reserve (Jan. 1, 1913), £100; Bank Overdraft, £3,000; Sundry Crs., £5,540. *Total, £58,050.*

Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1913, and a B/S as on that date. Stock at close of the year was agreed at £5,978. Work in progress on the same date, £890. Before closing the A/cs make the following adjustments: (1) 5% p. a. allowed on Partners' Cap. A/cs. No interest to be charged on drawings; (2) G. Sutton to have managing salary £300 p. a. before division of the profits; (3) Insurance carried forward to next year, £50; (4) Depreciation, 10% off Plant and Machinery; Bad Debt Reserve to be raised to £250.

CHARTERED INSTITUTE OF SECRETARIES.

FINAL, June, 1914

[For solutions see Key, pp. 692 *et seq.*]

(1) On Jan. 31, 1914, Woodward, Ltd., offered 50,000 New Ord. Shares £1 for subscription at par. Shares were payable: 2s. 6d.

on application, 5s. on allotment, and the balance as and when required by resolution of the Directors. The following applications were received: Robert Easter, Baldwins, Chelston, Essex, Gentleman, applied for 20,000 (all allotted); George Grainger, 365 Eldon Avenue, E.C., Wool Merchant, applied for 10,000 (all allotted); Charles Coombe, 10 Low Pavement, Chester, Shipowner, applied for 15,000 (10,000 allotted); Phillip Goodsir, Salisbury House, E.C., Solicitor, applied for 10,000 (all allotted); William Smith, Smithfield Market, E.C., Salesman, applied for 150 (none allotted). The Directors went to allotment Feb. 3, and all allotment monies were duly paid on or before Feb. 6. The distinctive numbers of the new shares ran from 50,001 onwards. Prepare a suitable Application and Allotment Book, and make the necessary entries; and give the entries recording the above transactions in the financial books of the Company.

(2) The Eastern Trust, Ltd., held a large number of investments. Submit forms of any books you would suggest for the record of the Co.'s investments, and transactions arising therefrom. Enter the following transactions: 1914, Feb. 16, Bought through Stag & Co., the Co.'s brokers, £5,000 Consols @ 75½. Brokerage and Expenses, £8 15s.; Feb. 17, Bought through Stag & Co., £5,000 Midland Ry. 2½% Pref. Consolidated Ord. Stock @ 60. Brokerage and Expenses, £8 10s.; Mar. 3, Received dividend on above for ½ yr. to Dec. 31, 1913 (less tax); Mar. 15, Sold through Stag & Co., £5,000 Consols @ 76½. Brokerage and Expenses, £8.

(3) Bouton d'Or, Ltd., bought Stalkys, Ltd.'s, business as on Dec. 31, 1913. The latter Co. had issued and called up the whole of their Nom. Cap. (50,000 £1 Shares). The purchase price of the shares acquired by Bouton d'Or, Ltd., was £25,000, payable in cash £10,000, and £15,000 in Second Debentures of Stalkys, Ltd., which was to be continued as a separate Co. The Blankshire Bank, Ltd., lent Stalkys, Ltd., £30,000, taking £40,000 First Debentures by way of security. £15,000 of this was used to discharge amounts owing to loan and trade creditors as on Dec. 31, and £10,000 was lent to Bouton d'Or, Ltd., who used it in discharge of part of the purchase price of Stalkys, Ltd.'s, shares. Second Debentures (£15,000) were issued to Bouton d'Or, Ltd., who were treated as debtors for the amount. These debentures were then transferred to the old shareholders of Stalkys, Ltd., in completion of the purchase of their shares.

STALKYS, LTD.

BALANCE SHEET, Dec. 31, 1913.

	£		£
Capital	50,000	Sundry Assets	65,000
Loans	10,000		
Trade Crs.	5,000		
	<u>65,000</u>		<u>£65,000</u>

Show the above transactions as they would appear in Stalkys, Ltd.'s, books, and give the B/S of the Co. as it would appear on completion of the purchase.

(4) What is a Secret Reserve? Give two methods employed by bankers to create Secret Reserves, and criticize the practice from the standpoint of the Bank's customers.

(5) The Chasemore Manufacturing Co., Ltd., was registered in 1910 (Nom. Cap. 30,000 Ord. £1 Shares); 12,000 shares had been issued, on which 15s. per share had been called up and paid. During 1913, a 20% dividend for 1912 was paid on the paid-up capital. In addition to the balances represented by the above, the undermentioned balances appeared in the books on Dec. 31, 1913: Plant, Machinery and Fixtures, £1,697 1s. 3d.; Bills Receivable, £102; Reserve A/c, £5,000; Sundry Drs., £10,542 14s.; Bad Debts Reserve (Dec. 31, 1912), £854 6s. 7d.; Sundry Crs., £1,529 17s.; Carriage Inwards, £624 14s. 1d.; Carriage Outwards, £747 8s. 2d.; Purchases, £15,278 6s. 4d.; Purchases Returns, £1,142 4s. 2d.; Sales, £28,637 1s. 4d.; Sales Returns, £721 9s. 2d.; Manufacturing Wages £4,438 8s. 11d.; Manufacturing Expenses, £206 19s. 4d.; Salaries, £2,153 4s. 10d.; Rent, Rates, Taxes, £1,099 14s. 6d.; Insurance, £50 14s.; Power and Fuel, £292 10s. 4d.; Lighting and Heating, £197 2s. 7d.; General Expenses, £499 14s. 4d.; Stock on hand (Dec. 31, 1912), £3,227 0s. 10d.; Travelling Expenses, £591 2s. 7d.; Discount A/c (Debit balance), £115 6s. 7d.; Bad Debts £116 1s. 8d.; Advertising, £1,847 4s. 10d.; National Health Insurance (Employer's contribution), £40 16s. 7d.; P. and L. A/c Cr. balance (Dec. 31, 1912), £2,642 11s. 4d.; Cash at Bank, £2,214 4s. 7d.; Cash in hand, £202 0s. 11d.

Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1913, and a B/S as on that date, and submit a brief report on the financial position of the Co. When preparing these A/cs, take into consideration the following: (a) Depreciation 10% off Plant, Machinery and Fixtures; (b) Bad Debts Reserve to be increased to £1,000; (c) Insurance unexpired, £19 4s. 6d., and Rates paid in advance, £72 4s. 1d.; (d) The Manager is entitled to 5% Commission on net profits; (e) Stock valued £4,722, as on Dec. 31, 1913.

CHARTERED INSTITUTE OF SECRETARIES.

INTER., March 1920.

(Three questions only to be attempted, of which Q. 5 must be one. Q. 4 must be answered by candidates sitting under the revised syllabus.)

(1) What is the meaning of the term "Exchange" as between two countries? Briefly explain the causes of the fluctuations which take place in the rate of exchange from day to day. (2) Soleil d'Or, Ltd., issued 100,000 7% £1 Pref. Shares at a premium of 2s. 6d. per share. Give the entries necessary to record the new issue in the Co.'s books, and state how the premiums received should appear in the Co.'s B/S. Are these premiums available for dividend purposes? (3) Select a manufacturing business and describe a system of receiving and issuing goods from store designed to facilitate costing and minimize pilfering. Give ruling of one of the books you recommend and make three specimen entries.

(4) The following is the P. and L. A/c of Hugh and George Dickson for the year ended Dec. 31, 1919: To Office Salaries, £2,386; To G. Dickson Salary, £500; To Interest on Capital @ 5%, £375; To Income Tax (Sch. D.), £287; To Reserve for Bad Debts 31/12/19 (£600 less £500 31/12/18), £100; To Depreciation (10% off Plant and Machinery, £340, and Furniture at 5%, £25), £365; To Profit for Year, £894. Total, £4,907. By Balance from Trading A/c, £4,855; By Interest on Bank Deposit A/c, £52. Total, £4,907. State whether

for Income Tax purposes the profit for 1919 should be included in the average of the past three years as £894. If, in your opinion, this is not correct, give the figure you would include, and show how you arrive at it.

(5) Ramblers, Ltd., was registered to acquire the business of a firm of Rose Growers. The Nom. Cap. of the Co. was £50,000 (25,000 £1 Ord. Shares and 25,000 7½% £1 Pref. Shares). The whole of the Pref. Shares had been issued and paid up in full. The whole of the Ord. Shares had also been issued, and 10s. per share called up. The following T. B. was extracted from the books as on Dec. 31, 1919:—

Dr. Balances. Ord. Shares Calls in arrear, £500; Freehold Nursery A/c, £30,000; Stock and Tillages (Dec. 31, 1918), £12,982; Purchases (Roses, new varieties, £371; Briars, £242; Fertilizers and Manures, £438); Sundry Drs., £7,862; Nursery Wages, £5,945; Rates, Tithes, Insurance, £742; Stock of Tools and Implements (Dec. 31, 1918), £860; Motor Lorry, £1,260; Tools Purchased, £172; Packing materials, £344; Carriage Outwards, £638; Horses and Carts, £640; Stable Expenses, £284; Office Expenses, £296; Directors' Fees, £400; Office Salaries, £741; Advertising, £1,260; Cost of Catalogue, £721; Pref. Share Dividend to July 1, 1919, £875; Office Furniture, £200; Cash in hand, £355. *Total*, £68,128.

Cr. Balances. Ord. Share Cap. A/c, £12,500; Ord. Share Calls paid in advance, £300; Pref. Share Cap. A/c, £25,000; Purchases Returns, £71; Sales, £21,052; Apprentices' Premiums, £600; Sundry Crs., £5,721; Transfer Fees, £6; Bad Debt Reserve (Dec. 31, 1918), £150; Bank overdraft, £2,728. *Total*, £68,128.

Prepare Trading and P. and L. A/cs, taking into account the following: (a) Bad Debts Reserve to be increased to £400; (b) Stock and Tillages, as on Dec. 31, 1919, were valued £10,230. On the same date Tools and Implements, £900, and Horses and Carts, £600; (c) Depreciation, Office Furniture 5%, Motor Lorry 15%; (d) Insurance paid in advance, £74. Apprentices' Premiums carried forward, £150; (e) Wages, £250, and included in "Nursery Wages," were spent upon opening up and planting new ground, and are to be transferred to Freehold Nursery A/c; (f) Calls paid in advance were entitled to interest for 12 mos. at 5½%, but no entries had been made in the books.

CHARTERED INSTITUTE OF SECRETARIES.

FINAL, March 1920.

(Three questions only to be attempted, of which Q. 5 must be one. Q. 4 must be answered by candidates sitting under the revised syllabus.)

(1) Briefly explain and distinguish between: (a) Probate and Letters of Administration; (b) Letter of Credit and Circular Note; (c) Coupon and Talon. (2) A Company paying dividends averaging 30% on capital decides to carry out the following: (a) Re-value the Machinery and Plant A/c, adding £25,000 to present book value (£30,000); (b) Re-value the Buildings and Leases A/c, adding £20,000 to present book value (£60,000); (c) Create a Goodwill A/c of £55,000; (d) Issue as fully paid 100,000 £1 Ord. Shares. State whether, in your opinion, these proposals are *intra vires* the Company, and give Journal entries necessary to incorporate them in the Co.'s books.

(3) In arriving at costing results, should (a) Interest on Capital and (b) Interest on Loans be taken into a/c? Give reasons for your opinion.

(4) How should the following items be treated when preparing a statement showing the liability of a Ltd. Co. for Income Tax under Sch. D.: (a) Interest received on Bank Deposit A/c and credited to P. and L. A/c; (b) A Reserve for Bad Debts debited to P. and L. A/c and amounting to 5% on Sundry Drs.; (c) Cost of National Health Insurance paid on behalf of the Co.'s employees and included in "Wages A/c"; (d) Cost of removing the Co.'s offices.

(5) The Loamshire Express, Ltd., was registered (Nom. Cap. £110,000—50,000 7% £1 Pref. Shares, 50,000 £1 Ord. Shares and 10,000 £1 Deferred Shares), to purchase a county newspaper of that name. All the Pref. Shares were issued fully called and paid up. All the Ord. Shares were offered and 45,000 applied for and allotted, 15s. per share was called and paid up, except a call of 5s. per share on 1,000 shares. 2,000 Ord. Shares were paid up in full. The 10,000 Deferred were issued to the vendors fully paid as the purchase price of the goodwill. On July 1, 1919, 200 6% £100 Debentures were issued at 95 and fully paid up. Interest due on these debentures as on Dec. 31, 1919, had not been passed through the books. In addition to the Ledger A/cs representing the above transactions, the following Ledger balances were extracted from the books of Co. as on Dec. 31, 1919: Machinery and Plant, £14,800; Monotype Machines, £6,860; Freehold Works and Offices, £51,229; Sales, £22,041; Sales (Cash), £982; Advertisement Receipts, £26,518; Jobbing Printing Receipts, £987; Printers' and Compositors' Wages, £13,221; Office Furniture, £680; Cash at Bank, £8,123; Cash in hand, £421; Sundry Crs., £224; Sundry Drs., £8,460; Purchases (Ink and Printing Materials), £6,956; Sales Returns, £989; Management and Office Salaries, £3,578; Office Expenses, £397; Advertisement Canvassers' Salaries and Commission, £1,326; Discount A/c (Debit balance), £123; Printing Works Expenses, £1,784; Carriage Outwards, £224; Carriage Inwards, £198; Bad Debts, £188; Bad Debt Reserve (Dec. 31, 1918), £200; Coal and Lighting (Works), £972; Coal and Lighting (Office), £54; Rates, Taxes, Insurance (Works), £424; Rates, Taxes, Insurance (Office), £98; Cost of Literary Contributions, £224; Machinery Repairs, £632; Stock of Type, Plates, etc. (Dec. 31, 1918), £12,965; New Type purchased, £1,284; 1000 £1 Shares in *Loamshire Evening News* purchased at 15s. per share, £750; Stock of Paper, Ink, etc. (Dec. 31, 1918), £9,872; Motor Vans, £6,500; Directors' Fees, £600.

Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1919, and a B/S as on that date, taking into a/c the following: (a) Depreciation, Machinery and Plant 10%, Monotype Machines, 15%; (b) £1,000 is to be reserved in connection with pending action for libel; (c) £120 paid to an injured Workman and included in Printers' Wages is recoverable from an Insurance Co.; (d) Bad Debts Reserve to be increased to equal 5% on Sundry Drs.; (e) Stock, Paper, Ink, etc., Dec. 31, 1919, was £8,740. On the same date Motor Vans were £5,800 and Type, Plates, etc., £13,000; (f) £2,500 of "Advertisement Receipts" represent unexpired prepaid advts., and is to be carried forward to next year; (g) The *Loamshire Evening News* went into liquidation and the shares are to be written off; (h) One-fifth of the Debenture Discount is to be written off; (i) No entries have been made in the books in respect of 12 mos. Interest at 5% due upon the calls made in advance.

CHARTERED INSTITUTE OF SECRETARIES.

INTER., June 1920.

(Not more than three questions must be attempted, one of which must be Q. 5. Q. 1 must be answered by candidates sitting under the revised syllabus.)

(1) Into how many Schedules is Income Tax divided? Select two, and briefly describe the nature of the Income taxable thereunder.

(2) Explain "Fixed" and "Floating" Assets, and describe the difference, if any, in the obligation to provide for depreciation in connection with them.

(3) M. Ravary keeps his books by "Single Entry." As on Dec. 31, 1918 and 1919 respectively his financial position was as follows :—

	191	191
Cash at Bank . . .	£45	£110
Cash in hand . . .	36	30
Stock . . .	1,926	2,851
Machinery and Plant . . .	2,721	3,050
Bills Receivable . . .	(nil)	324
Sundry Drs. . .	1,242	2,197
Sundry Crs. . .	3,602	4,200
Office Furniture . . .	248	261
Private Drawings . . .	(nil)	250

Prepare a statement from the above particulars, showing M. Ravary's profit for the year ended Dec. 31, 1919. Ignore Depreciation and Reserve.

(4) The Rates of exchange ruling between this country and foreign States are described either as "Stable" or "Fluctuating." Describe what this means, and briefly describe any differences necessary in the book-keeping records of dealings of the above types between U. K. and foreign countries.

(5) Clark and Dickson are partners as manufacturers of rubber heels and tyres. Profits and losses are shared as follows: Clark two-thirds; Dickson one-third. The following T. B. was extracted from the books as on Dec. 31, 1919.

Dr. Balances. Clark, Drawings A/c, £850; Dickson, Drawings A/c, £600; Office Salaries, £1,986; Machinery and Plant, £12,840; Stock (Dec. 31, 1918), £7,294; Purchases, £29,262; Sales Returns, £321; Manufacturing Wages, £12,314; Travellers' Salaries and Commission, £3,276; Factory Fuel and Lighting, £428; Office Coal and Lighting, £28; Interest A/c (Loan on Mortgage), £425; Office Expenses, £294; Carriage Inwards, £431; Carriage Outwards, £342; Freehold Factory, £12,750; Office Rent and Rates, £271; Factory Rates and Insurance, £222; Office Furniture, £500; Machinery Repairs, £398; Royalties paid on Patent Tyre Process, £471; Bad Debts, £219; Sundry Drs., £6,284; Cash in hand, £327; Cash at Bank, £2,273; Bills Receivable, £1,786. *Total*, £96,192.

Cr. Balances. Clark, Cap. A/c, £16,000; Dickson, Cap. A/c, £12,000; Purchases Returns, £429; Sales, £57,214; Loan on Mortgages, £8,500; Discount A/c, £78; Bad Debts Reserve, £250; Sundry Crs., £1,721. *Total*, £96,192.

Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1919, and a B/S as on that date, taking into consideration the follow-

ing: (a) Partners are entitled to 5% Interest on Capital, but no interest to be charged on drawings; (b) Depreciation, Plant and Machinery 10%, Office Furniture 5%; Stock, Dec. 31, 1919, £8,721; (d) Provision for Bad Debts increased to £400; (e) Dickson to be credited with £500 as salary prior to division of profits; (f) Machinery and Boiler Insurance Co., Ltd., is liable for £240 (included in "Machinery Repairs") representing the cost of repairs to main engine insured with Co.; (g) As on Dec. 31, 1919, the following liabilities were outstanding: Wages, £321, Salaries, £92.

CHARTERED INSTITUTE OF SECRETARIES.

FINAL, June 1920.

(Three questions only to be attempted, including No. 5. Q. 2 must be answered by candidates sitting under revised syllabus. Time 2 hrs.)

(1) The Managing Director of the Co. by whom you are employed asks for the following information for the year ended Dec. 31, 1919: (a) Amount of transfer fees recd. during the year; (b) Total no. of shares transferred by members during the year; (c) Dates upon which the seal of the Co. was affixed to 3 specified documents; (d) Particulars of all Balance Certificates issued and outstanding at the close of the year. Describe how you would proceed to collect the required information from the books and records of the Co.

(2) Owing to delay in furnishing the necessary return, the Inspector of Taxes for your district assesses Co. by whom you are employed at £12,500, an amount considerably in excess of your estimate of the Co.'s liability. Describe steps you would take to obtain an equitable assessment. (3) How are the profits of a Life Assurance Co. ascertained? (4) Describe the differences, if any, in the method of presenting the B/Ss of Co.'s whose accounts are kept: (a) On the Single A/c System; (b) On the Double A/c System.

(5) The Perkins Boot Manufacturing Co., Ltd., was registered with a Nom. Cap. £100,000 (50,000 £1 Ord. Shares and 50,000 £1 7% Cum. Pref. Shares). All Pref. Shares were issued, subscribed and fully paid up. 20,000 Ord. Shares were issued fully paid in payment for the goodwill of the business taken over by the Co. The balance of the Ord. Shares were offered to the public, and fully subscribed. Fifteen shillings per share was called and paid up, except 5s. per share on 1,000 shares, which remained unpaid as on Dec. 31, 1919. Two hundred £100 6% Debentures were issued at 105 and fully paid up. In addition to the A/cs necessary to record the above transactions, the following Ledger balances were extracted from the books as on Dec. 31, 1919: Machinery and Plant, £15,840; Prelim. Expenses A/c, £573; Manufacturing Wages, £37,841; Purchases, £189,742; Purchases Returns, £1,124; Sales, £260,836; Sales Returns, £924; Staff Pension Fund, £9,500; Investments, Staff Pension Fund, £9,495; Advertising, £3,750; Factory Fuel and Lighting, £2,862; Machinery Repairs, £741; Salaries of Factory Managers, £2,500; Salaries of Office Staff, £3,261; Debenture Interest, £1,200; Motor Lorries, £2,800; Petrol and Running Expenses of Lorries, £376; Transfer Fees, £8; Factory Expenses, £1,384; Bonus to Factory Workpeople, £2,000; Bonus to Office Staff, £500; Office Expenses, £472; Office Furniture, £600; Directors' Fees, £1,000; Discount A/c (Credit balance), £127; Stock, Dec. 31, 1918, £32,986; Sundry Drs.,

£22,940; Sundry Crs., £21,784; Bad Debts, £724; Audit Fee, £125; Freehold Factory and Office, £38,500; Cash at Bank, £9,990; Cash in hand, £986; Apprentices' Premiums recd., £650; National Health Insurance (Factory), £378; Travellers' Salaries and Commissions, £2,989.

Prepare Manufacturing and P. and L. A/cs for the year ended Dec. 31, 1919, and a B/S as on that date, taking into consideration the following: (a) Depreciation, Machinery and Plant 10%, Motor Lorries, 15%, Office Furniture, 5%; (b) Wages for one week, £738, and Salaries for 1 mo., £275, were due as on Dec. 31, 1919, and had not been passed through the books; (c) Vendors were liable for one-third Prelim. Expenses; (d) Reserve for Bad Debts to be created amounting to £1,400; (e) Stock, Dec. 31, 1919, £46,942; (f) On Dec. 28, 1919, a claim for £250 was received for non-delivery of goods within the contract time. The Claim is admitted, but no entries had been made in the books; (g) A contribution of £600 from the Profits to the Staff Pension Fund; (h) £5,000 to be carried to a Reserve A/c; (i) £250 of Apprentices' Premiums to be carried forward to next year; (j) No provision is to be made in A/cs for the dividend due on Pref. Shares for the year ended Dec. 31, 1919.

LONDON CHAMBER OF COMMERCE.

SENIOR COMMERCIAL CERTIFICATE, November 1911.

[For solutions see Key, p. 412.]

(1) Are Assurance Companies under statutory obligations with regard to their annual A/cs? Prepare, from the figures below, the Revenue A/c of the East Coast Assurance Co., Ltd., for the year ended Dec. 31, 1910, and give the amount of the Life Assurance Fund at that date: Amount of Life Assee. Fund at beginning of year, £2,567,000; Surrenders, £9,462; Premiums, £620,500; Consideration for Annuities granted, £38,450; Bonuses paid in Cash, £7,480; Expenses of Management, £18,750; Interest and Dividends, £64,500; Income Tax paid thereon, £3,762; Annuities paid, £21,640; Commission, £10,700; Fines for revival of Policies, £120; Claims (by death), £12,500, (by maturity), £27,800; Dividends paid to Shareholders, £10,450.

(2) From the following particulars make up Alfred Tate's return for Income Tax and Super-tax for the year 1911/12, stating the amount payable in each case. Income from Authorship: 1908, £700; 1909, £900; 1910, £1,700. He possesses £50,000 3½% Colonial Stock, and £60,000 Chinese Govt. 4½% Bonds. He is insured with the Prudential and pays a premium of £150 p. a. His wife has no income. He has one child under 16 years of age. (3) Prepare A/cs showing the history of the following investment of U. Brunner. Bought, on Aug. 3, 1909, £1,150 Canadian West. Rly. 5% Deb. Stock @ 85½%, and paid £10 3s. for stamps, commission, etc. Sold the stock on April 29, 1910, and paid £11 1s. Expenses. Deb. Int. is payable half-yearly on April 1 and Sept. 1, less tax (to be taken @ 1s. 2d. in the £). (4) Show the Journal entries for the following transaction: The Ravary Printing Machine Co., Ltd., issued, on June 30, 1911, 100,000 Ord. £1 Shares at a premium of 5s. per share, payable on application. The shares were payable 10s. per share

on application and 15s. on allotment. The issue was fully subscribed, and allotment was made on July 15, 1911.

(5) The following balances were extracted from the books of H. Francis, Manufacturing Stationer, on Dec. 31, 1910: H. Francis, Cap. A/c, £10,000; Furniture and Fittings, £342 1s. 7d.; Land and Buildings, £2,171 13s. 1d.; Drawings, £420; Cash at Bank, £242 16s. 5d.; Cash in hand, £14 11s. 2d.; Sales, £18,767 1s. 1d.; Sales Returns, £124 14s. 11d.; Carriage, £345 1s. 7d.; General Expenses, £241 2s. 2d.; Manufacturing Wages, £3,124 17s. 2d.; Dis. allowed, £263 12s.; Dis. received, £199 7s. 9d.; Bank Charges, etc., £7 8s. 8d.; Loan from Ed. Francis, £1,000; Office Salaries, £427 12s.; Purchases, £13,271 14s. 8d.; Purchases Returns, £97 7s. 7d.; Stock, Dec. 31, 1909, £4,017 2s. 1d.; Plant and Machinery, £1,442 12s. 1d.; Reserve for Bad Debts, £310 7s. 6d.; Sundry Crs., £1,242 14s. 11d.; Manufacturing Charges, £271 12s. 1d.; Rates and Taxes, £242 0s. 1d.; Sundry Drs., £4,382 14s. 11d.; Bad Debts, £92 12s. 2d.; Insurance, £47 6s. 3d.; Bills Receivable, £123 13s. 9d. Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1910, and B/S at that date, but before doing so take into consideration the following: (a) Write 10% Depreciation off Plant and Machinery; (b) A new machine, cost £250, was put down in Nov. 1910, but was not paid for, and no entries were put through the books; (c) Write 10% Depreciation off Furniture and Fittings; (d) Stationery, value £47 8s. 2d., taken from stock during the year and used in the business, was to be charged out but had not been recorded in the books; (e) Increase Reserve for Bad Debts to £500; (f) Unexpired Insurance on Dec. 31, 1910, amounted to £12 4s. 2d.; (g) £12 due Dec. 31, 1910, for interest on Loan from Ed. Francis had not been put through the books; (h) Stock on Dec. 31, 1910, was valued at £4,247 6s. 6d., and Bills Receivable on that date but not yet due, value £117, had been discounted.

LONDON CHAMBER OF COMMERCE.

SENIOR AND TEACHERS' DIPLOMA, May 1912.

[For solutions see Key, p. 416.]

(1) Prepare, in statutory form, Revenue Account of the Minster Assurance Co., Ltd., for the year ended Dec. 31, 1911, from the following figures:—Claims: By death, £76,140; By maturity, £30,110. Premiums, £705,690; Transfer Fees, £129; Consideration for Annuities granted, £82,127; Annuities paid, £53,461; Bonuses paid in Cash, £2,416; Expenses of Management, £31,920; Commission, £9,574; Interest, Dividends and Rents, £97,840; Income Tax thereon, £5,710; Surrenders, £13,140; Bonuses in reduction of Premiums, £980; Dividends paid to Shareholders, £5,500; Amount of Life Assurance Fund at the beginning of the year, £1,521,000.

(2) The Nom. Cap. of the Richmond Co., Ltd., consists of 100,000 Shares of £1 ea. These were issued in 1910, and fully called up in four equal instalments of 5s. each. On Feb. 12, 1911, the Directors passed a resolution forfeiting the 1,000 shares held by W. A. Richardson, the final instalment due thereon not having been paid. On May 1, 1911, the 1,000 forfeited shares were issued as fully paid, to Captain Hayward who paid £500 for them. Give the entries necessary to record these transactions in the Company's books.

(3) The George C. Waud Finance Corporation, Ltd., hold a large number of investments. Explain briefly what records you would advise the Company to keep relative to these. Give *pro forma* ruling of the ledger account recommended and enter therein not more than six items. (4) What is "Super-tax"? Upon whom is it levied? On what basis are the trading profits of a partnership assessed for this tax?

(5) The A. R. Waddell Co., Ltd., formed to purchase a manufacturing business, was registered on Jan. 1, 1911, with a Nom. Cap. of £100,000, divided into 10,000 Ord. Shares of £10 ea. With the undermentioned exception, these shares were offered to the public, 7,500 being subscribed and allotted. As part purchase price of the business, 500 shares were allotted as fully paid to the vendor. The shares issued to the public were payable: £2 10s. per share on application, £2 10s. on allotment, £2 10s. on March 31, 1911, and the balance as and when required. The final balance had not been called up on Dec. 31, 1911. In addition to the balance of the Cap. A/c, the following balances appeared in the Company's books on Dec. 31, 1911: Salaries, £3,060; Manufacturing Wages, £22,421; General Expenses, £941; Stock (Jan. 1, 1911), £10,210; Rents received, £300; Reserve for Depreciation of Buildings, £3,000; Carriage, £6,119; Sundry Drs., £16,342; Sundry Crs., £6,124; Rates, Taxes and Insurance, £2,450; 5% Debs., £5,000; Deb. Interest (from date of issue to June 30, 1911), £107; Purchases, £102,551; Sales, £142,412; Calls in arrear, £250; Repairs and Renewals, £1,027; Freehold Land and Buildings, £26,000; Reserve for Bad Debts, £250; Goodwill, £10,000; Purchases—Returns, £4,001; Sales—Returns, £4,759; Bills Payable, £962; Alterations and Improvements, £2,505; Advertising, £2,793; Directors' Fees, £750; Legal Expenses, £61; Preliminary Expenses, £447; Plant, Machinery and Fixtures, £9,510; Lighting and Heating, £766; Discount A/c (Dr. balance), £1,174; Travellers' Expenses and Commission, £647; Bank Overdraft, £1,789; Cash in hand, £198. Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1911, and B/S as on that date. State briefly what conclusions the accounts of the Company would lead you to draw. Before preparing the accounts, take the following matters into consideration: (a) Write 10% Depreciation off Plant and Machinery; (b) Increase Reserve for Bad Debts to £500; (c) Carry forward £50, Insurance paid in advance; (d) The amount spent upon Alterations and Improvements is to be written off by equal instalments over a period of 5 years ending Dec. 31, 1915; (e) Write off the whole of the Preliminary Expenses; (f) Stock in hand on Dec. 31, 1911, was valued at £12,347.

(6) Are the published accounts of Gas Companies subject to any statutory regulations? Give rulings you recommend for any two of the principal books employed by Gas Companies, and briefly describe their uses. (7) Pernet Ducher & Co., Ltd., London, have a branch office in a South American Republic, where the exchange fluctuations are considerable. The books of the branch are kept in local currency only, and, at the close of each financial year, a T. B., P. and L. A/c, and B/S are sent to the London Office. Briefly describe how you would amalgamate the branch figures with those of the Head Office. At what rates would you convert (a) The P. and L. A/c balance, (b) Floating Assets, (c) Fixed Assets, and (d) Remittances from London?

LONDON CHAMBER OF COMMERCE.

SENIOR COMMERCIAL CERTIFICATE, November 1912.

[For solutions see Key, p. 418.]

(1) Differentiate between the terms "Double Account System" and "Double Entry System." In what classes of undertaking is the former system used?

(2) The businesses of Norman Brown and Saxon Green were amalgamated under the style of "Brown and Green" on Mar. 1, 1911. The P. and L. A/c below shows the result of the first year's trading of the partnership:—

	£	s.	d.		£	s.	d.
To Salaries (including £200 paid to each Partner):	1,200	5	0	By Gross Profit . . .	3,000	0	0
„ Interest on Capital . .	190	0	0	„ Interest on Consols . .	35	17	4
„ Income Tax (Sch. A) . .	9	14	10	„ Rent of portion of Premises sublet at 10/- per week . .	26	0	0
„ Rent	190	5	2				
„ Rates	76	19	2				
„ Interest on Loan . . .	11	6	0				
„ Depreciation on Machinery (15% on £600) .	90	0	0				
„ Balance carried down .	1,293	7	2				
	£3,061	17	4		£3,061	17	4

By Balance brought down £1,293 7s. 2d.

The P. and L. A/c balances (after adjustment for Income Tax purposes) of the individual firms for the three preceding years, were as follows:—

For the year ended Mar. 1, 1909,	Brown Profit 760;	Green Profit 40.
„ „ „ 1910,	„ 940;	„ 50.
„ „ „ 1911,	„ 1,010;	„ Loss 20.

Prepare the Firm's Income Tax Return for 1912/13, ignoring the question of the division of profits. An allowance of $7\frac{1}{2}\%$ for wear and tear of Machinery had been agreed with the Surveyor.

(3) Rule form of Cash Book required in a business where a General Ledger, two Bought Ledgers and two Sold Ledgers are in use, the Ledgers being "self-balancing." Explain briefly how you would carry out the principles of "self-balancing" ledgers in connection with this Cash Book. (4) The Blakewell Manufacturing Company, Ltd., issued £10,000 Debentures at 5% discount. Underwriting costs, etc., were $2\frac{1}{2}\%$ on the issue. Show these transactions in the books of the Company and in the Company's B/S, assuming that neither discount on the issue nor underwriting costs, etc., had been written off on the date when the B/S was prepared.

(5) J. Skinner and H. Fuller are partners as Wholesale Grocers. The balances of their Cap. A/cs were equal as on Dec. 31, 1911. In addition to the balances of the Cap. A/cs, the following balances appeared in the books: J. Skinner (Drawings A/c), £971 10s.; H. Fuller (Drawings A/c), £842 12s. 6d.; Office Salaries, £979 7s. 6d.; General Expenses, £174 19s. 7d.; Factory and Warehouse Wages, £2,356 17s. 4d.; Rates, Taxes and Insurance, £470 4s. 10d.; Repairs and Renewals, £142 3s.; Manufacturing Expenses, £371 12s. 4d.; Legal Expenses and Audit Fee, £67 2s.; Travellers' Expenses and Commission, £547 0s. 7d.; Advertising, £12,127 4s. 2d.; Discount

Account (Dr. bal.), £124 18s. 1d.; Sundry Drs., £7,982 13s. 4d.; Sundry Crs., £3,641 12s. 2d.; Purchases, £10,724 12s. 5d.; Sales, £28,990 15s.; Rents received, £76; Carriage Inwards, £374 3s. 3d.; Carriage Outwards, £537 4s. 7d.; Plant, Machinery and Fixtures, £1,489 6s. 8d.; Freehold Land and Buildings, £6,237 16s.; Stock in hand (Dec. 31, 1910), £7,047 11s. 4d.; Postage and Stationery, £243 14s. 1d.; Bad Debts written off, £141 9s. 4d.; Purchases Returns, £351 4s. 6d.; Sales Returns, £1,240 5s.; Cash at Bank, £1,110 19s.; Cash in hand, £112 12s. 7d. Prepare Trading and P. and L. A/c for the year ended Dec. 31, 1911, and B/S on that date, but before doing so take the following into consideration: (a) Write 10% Depreciation off Plant, Machinery and Fixtures; (b) J. Skinner withdrew Capital, £1,000, on June 30, 1911; (c) Create Reserve for Bad and Doubtful Debts of 2½% on the Debtors; (d) Charge Interest on Capital (but not on Drawings) at 5% p. a.; (e) Carry forward unexpired Insurance and Rates, £18 8s. 2d. and £24 7s. 6d. respectively; (f) Charge against P. and L. A/c for advertising 20% on the net sales, and carry forward the balance of the Advertising A/c; (g) Losses are to be borne equally, but profits are to be divided as follows: two-fifths to J. Skinner, two-fifths to H. Fuller, one-fifth to be set aside for division amongst employees; (h) Stock in hand on Dec. 31, 1911, was agreed at £6,954 12s. 2d.

LONDON CHAMBER OF COMMERCE.

SENIOR AND TEACHERS' DIPLOMA, May 1913.

[For solutions see Key, p. 421.]

(1) The Northern Colliery Co., Ltd., leased a Coal Mine for 20 years from Jan. 1, 1906, paying 6d. per ton royalty on output, with a minimum rent of £400 p. a., and power to recoup short-workings over the first 5 years of the lease. Show Royalty, Short-workings, and Landlord's A/cs, assuming annual output, in tons, for the first 5 years to be as follows: 1906, 10,000; 1907, 15,000; 1908, 17,000; 1909, 18,000; 1910, 20,000.

(2) On Jan. 1, 1912, a Company was formed to acquire Albert Durand's business. The Nom. Cap. was £20,000 divided into 10,000 £1 Ord. Shares, and 1,000 6% Pref. Shares of £10 ea. 5,000 Ord., and 500 Pref. Shares were allotted fully paid to the vendor, and on Jan. 5, 1912, the balance of the Ord. Shares was issued to the public at a premium of 5s. per share, of which 75% was applied for and allotted, the terms being 10s. per share (including premium) on application, 7s. 6d. per share on allotment, and the balance on Mar. 31, 1912. Allotment was made on Jan. 12. All application and allotment monies were paid except that due on the allotment of 500 shares to Victor Verdier. These shares were forfeited by the Directors on Mar. 15, 1912, and re-issued on Mar. 22 to Hugh Dickson on his paying the amount due on the shares. Show these transactions as they would appear in the Company's books, assuming the call due Mar. 31, 1912 has been made, but no cash in respect of it has been received.

(3) What do you understand by a Preliminary Expenses A/c? What expenses are commonly charged to this A/c, and why? (4) What benefit accrues to a consignor by drawing upon his consignee

against the consignment? Show by *pro formâ* entries how the consignor treats such a bill in his books.

(5) A Patent Medicine Company was formed in July 1, 1911, with a Nom. Cap. of £50,000, divided into £1 Shares. The shares were offered, and 38,000 were applied for and allotted to the public. On June 30, 1912, 15s. per share had been called and paid, except 5s. per share on 400 shares. In addition to the balances represented by the foregoing, the following appeared in the Company's books on June 30, 1912: Cash at Bank, £3,622 17s. 6d.; Cash in hand, £96 4s. 1d.; Sales, £22,947 1s. 4d.; Sales Returns, £429 2s. 2d.; Insurance and Revenue Stamps, £647 9s. 1d.; Int. on temporary Bank Deposit, £14 1s.; Plant and Machinery, £9,673 10s.; Fixtures and Fittings, £976 6s. 8d.; Manufacturing Wages, £8,610 4s. 7d.; Advertising, £14,205 19s. 9d.; Salaries, £942; Carriage Inwards, £412 19s. 10d.; Carriage Outwards, £641 2s. 9d.; General Expenses, £216 4s. 6d.; Purchases, £6,428 13s. 4d.; Purchases Returns, £314 6s. 2d.; Rent, Rates and Taxes, £614 10s. 10d.; Lighting and Heating, £97 16s. 7d.; Sundry Drs., £5,414 14s. 1d.; Sundry Crs., £2,141 14s. 3d.; Bills Payable, £612 6s.; Preliminary Expenses, £207 6s. 1d.; Discount A/c balance, £92 7s.; Directors' Fees, £150; Electric Power, £949 19s. 11d. Prepare Trading and P. and L. A/cs for the year ended June 30, 1912, and B/S at that date, after taking into consideration the following: (a) Write 10% Depreciation off Plant and Machinery, and (b) 5% off Fixtures and Fittings; (c) Create Reserve for Bad and Doubtful Debts = $2\frac{1}{2}\%$ on Sundry Drs.; (d) Write off all Preliminary Expenses, and (e) Advertising by equal Annual instalments over three years ending June 30, 1914; (f) The Manager is entitled to 5% Commn. on net profits after charging this Commn. and all other charges and appropriations of profits except dividends; (g) Unexpired Rates and Insurance on June 30, 1912, were £39 4s. 1d. and £47 2s. respectively; (h) Stock at June 30, 1912 = £3,942 1s. 10d.

(6) State briefly any defects presented by the Double Account System of accounting. (7) A London manufacturing Company has a branch in S. America where the local currency constantly fluctuates in value. Give concise instructions to the London book-keeper how the A/cs between London and S. America are to be kept and adjusted.

LONDON CHAMBER OF COMMERCE.

SENIOR COMMERCIAL CERTIFICATE AND TEACHERS' DIPLOMA,

November 1913.

[For solutions see Key, p. 426.]

(1) T. Landry and R. Lambert, equal partners in a business, agreed to dissolve and realize the business as on June 30, 1913, when the B/S was as follows:—*Liabilities*: T. Landry, Cap. A/c, £3,000; R. Lambert, Cap A/c, £700; Sundry Crs., £2,300. *Assets*: Sundry Assets, £5,150; Cash, £850. The expenses of realization, paid in cash, were £270, and the Sundry Assets produced £3,920. Show fully the result of the realization, concluded on Aug. 16, 1913. By the partnership articles any deficiency in the Cap. A/c of either is at once to be made good in cash. (2) On Jan. 1, 1913, Jackson & Co. accept W. Grant's bill drawn at 3 m/d for £500. On Feb. 1, 1913, Grant negotiates the bill to Robinson's, Ltd., who at once discount

it at 4% p. a. The bill is dishonoured but, by instruction, no charges were incurred. The drawee then gives a new bill for the original amount plus 1%, payable 1 m/d. Show these transactions in the books of each of the parties to these bills. (3) What is meant by Debentures issued at a discount? Give an example, illustrating how you would show such debentures in a Company's B/S. (4) What details must be obtained and grouped together in a Cost Sheet to arrive at the total cost of manufacture of any article? Illustrate your answer by giving a Cost Sheet adapted to any manufacturing business with which you are familiar.

(5) On Jan. 1, 1912, the X. Y. Z. Co., Ltd., was formed with a Nom. Cap. of £110,000, divided into 100,000 £1 Ord. Shares, and 1,000 £10 8% Pref. Shares. The shares were offered, 95,800 Ord. Shares, and all the Pref. Shares being applied for and allotted. On Dec. 31, 1912, 12s. 6d. per share had been called up on the Ord. Shares, being 5s. on application, 5s. on allotment, and 2s. 6d. on first call made, Mar. 1, 1912. Except 7s. 6d. per share on 800 shares the amount called up had been paid, and these were forfeited by the Directors on April 1, 1912. The Pref. Shares were fully paid. In July, interim dividends were paid of 6d. per share on the Ord. Shares and 4% on the Pref. Shares. Ignore the question of Income Tax in connection with these dividends. In addition to the balances of the above transactions, the following appeared in the Company's books on Dec. 31, 1912: Rent, Rates, Taxes and Insurance, £2,298 5s. 9d.; Dis. A/c (Cr. bal.), £59 4s. 1d.; Salaries, £2,800; Directors' Fees, £250; Sundry Crs., £4,899 0s. 7d.; Bills Receivable, £422 6s. 7d.; Repairs, £472 17s.; Advertising, £9,660; Int. paid on Mortgage to Dec. 31, 1912, £112 10s.; Freehold and Leasehold Property, £25,267; Office Expenses, £1,644 2s. 3d.; Goodwill, £14,000; Prelim. Expenses, £411 10s.; Bad Debts, £329 6s. 8d.; Sales, £93,120 15s. 11d.; Sales Returns, £1,510 11s. 4d.; Purchases, £67,954 12s. 11d.; Purchases Returns, £1,925 8s. 3d.; Plant and Machinery, £6,721 15s. 1d.; Furniture and Fittings, £2,978 13s. 4d.; Factory Expenses £247 14s. 5d.; Mortgage (4½%) on Company's Freehold Property, £5,000; Transfer Fees, £1 7s. 6d.; Carriage, £1,202 7s. 5d.; Manufacturing Wages, £11,222 1s. 1d.; Sundry Drs., £20,293 15s. 8d.; Lighting and Heating, £115 15s.; Factory Fuel and Power, £247 4s. 11d.; Cash at Bank, £1,547 14s. 10d.; Cash in hand, £95 12s. 1d. Prepare Trading and P. and L. A/cs for year ended Dec. 31, 1912, and B/S on that date, after taking into consideration the following: (a) Unexpired Rates and Insurance were £127 1s. 8d.; (b) Write off all Preliminary Expenses. £2,000 off Leasehold Property, 10% Depreciation off Plant and Machinery, and 5% off Furniture and Fittings; (c) Carry forward two-thirds of the Advertising expenditure; (d) Create Reserve for Bad Debts = 5% on Drs.; (e) Stock, Dec. 31, 1912 = £11,168 16s. 8d.

(6) What is meant by the expression "Reduction of Capital"? In what circumstances is this procedure followed, and why? (7) Rule form of a Water Company's Consumers' Columnar Ledger. Enter six entries and explain the advantages of such a ledger as compared with the ordinary kind.

LONDON CHAMBER OF COMMERCE.

SENIOR COMMERCIAL CERTIFICATE AND TEACHERS' DIPLOMA,
May, 1914.

[For solutions see Key, p. 430.]

(1) Abel Chatenay's P. and L. A/c, as agreed with the Surveyor of Taxes, gave the following results: 1909, Profit, £9,500; 1910, Loss, £610; 1911, Profit, £10,820. Apart from the above, Chatenay's gross income for the year preceding assessment was: Dividends and Interest (gross), £1,200; Director's Fees, £500; Rents from House Property, £900; Wife's Income, £500. His Life Assce. premium was £180 p. a. Prepare Chatenay's return for Super-tax for the year 1913/14. (2) The income of the N.E. Rubber Trust, Ltd., is derived from investments in rubber and other Companies. Design a ledger suitable for retording the Company's investments and make three specimen entries therein. (3) The P. and L. A/c of Soleil d'Or, Ltd., prior to payment of debenture interest for the half-year to Dec. 31, 1913, disclosed a profit of £12,850 as on Dec. 31, 1913. Paid-up Capital of the Company was £100,000, divided into 50,000 £1 5% Pref. Shares, and 50,000 £1 Ord. Shares. There were also 100 Debs. of £100 ea. at 4% p. a. The Directors' recommendations with regard to the above balance were as follows: (a) Pay half-year's interest due Dec. 31, 1913, on the Debs; (b) Pay the Pref. dividend for the half-year to Dec. 31, 1913; (c) Pay a dividend of 10% on the Ord. Shares for the year ended Dec. 31, 1913, free of Income Tax; (d) Transfer £5,000 to Reserve, making that A/c £15,000 in all; (e) Carry forward balance to next year. Show the entries required to record these transactions in the Company's books.

On Jan. 1, 1913, a Company was formed to take over J. Brown & Co's business. The Nom. Cap. was 60,000 £1 Shares. The vendors received 10,000 shares fully paid, in part payment of the Assets, and the remainder were offered to the public, 34,000 being applied for and allotted. By Dec. 31, 1913, 17s. 6d. per share had been called up and paid except that 2s. 6d. per share on 280 shares was unpaid, and 400 shares had been paid up in full. In addition to the balances represented by the foregoing, the following balances appeared in the Company's books on Dec. 31, 1913: Cash in hand, £79 8s. 7d.; Cash at Bank, £2,106 4s. 8d.; Stock, Jan. 1, 1913, £4,005 0s. 6d.; Sales, £21,845 9s.; Purchases, £10,841 11s. 9d.; Rates and Insurance, £528 0s. 9d.; Plant and Machinery, £6,793 10s.; Fixtures and Fittings, £769 8s. 7d.; Manufacturing Wages, £4,180 2s. 9d.; Bad Debts, £218 7s. 6d.; Freehold Premises, £17,000; Salaries, £692; Factory Power, £89 7s. 4d.; Lighting, £120 8s.; Travellers' Salaries and Expenses, £1,860 4s. 3d.; Carriage Outwards, £1,441 19s. 9d.; Goodwill, £5,000; General Expenses, £297 14s. 1d.; Returns Inwards, £413 2s. 6d.; Returns Outwards, £214 1s. 6d.; Sundry Drs., £5,314 8s. 6d.; Sundry Crs., £1,783 4s. 5d.; Preliminary Expenses, £389 7s. 6d.; Dis. A/c (excess of dis. allowed over dis. received), £1,467 7s. 11d. Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1913, and B/S on that date, after taking into consideration the following: (a) Write 10% Depreciation off Plant and Machinery, 5% off Fixtures and Fittings, and £100 off Preliminary Expenses; (b) Reserve £250 for Directors' Fees, and 2½% on Sundry Drs. for Bad and Doubtful Debts; (c) Charge Vendors with £34 8s. 7d.,

being bad debts on Sundry Drs., guaranteed by them; (d) Rates owing, £36 8s., Insurances paid in advance, £43 8s. 6d.; (e) Stock at Dec. 31, 1913 = £5,643 10s. 8d.

(6) The Dr. and Cr. Sides of the B/S of Limited Companies are often headed Liabilities and Assets respectively. Have you any objection to this practice? Is there any obligation to provide for waste that may occur in the fixed or floating assets of a Limited Company? If so, how should it be dealt-with? (7) Give Form of a Valuation B/S of an Insurance Company. What is the object of such a B/S and when is it usually preferred?

LONDON CHAMBER OF COMMERCE.

SENIOR AND TEACHERS' DIPLOMA, May 1919.

(1) On Jan. 1, 1916, W. A. Richardson leased a Coal Mine from A. Chatenay for 21 years, at a dead rent of £1,000 p. a., merging into a royalty of 1s. per ton, with power to recoup short-workings during the first three years of the lease. Tonnage raised was as follows: 1916, 12,800 tons; 1917, 19,800 tons; 1918, 29,800 tons. Up to Dec. 31, 1918, Richardson made only two payments on A/c, viz.: Jan. 1917, £1,000; Jan. 1918, £800. Prepare the accounts in W. A. Richardson's books, showing the position as on Dec. 31, 1918.

(2) Select a business in which the use of the Slip System of ledger posting is advantageous, and briefly describe how the system would be operated. (3) What is a "Cost Sheet"? Select a business, and submit a *pro forma* cost sheet for the information of the proprietor. (4) What is the difference between a Cumulative and a Non-Cumulative Pref. Share? Does this difference affect the annual accounts in any way?

(5) J. B. Clark, Cigarette Manufacturer, agreed to take his manager, L. Hillingdon, into partnership on Jan. 1, 1918. The following terms were agreed: (a) A Goodwill A/c of £10,000 was to be created, and a similar amount credited to J. B. Clark; (b) L. Hillingdon was to have a salary of £400 p. a., payable monthly; (c) Twelve monthly drawings on a/c of profits were to be made by the Partners, i.e., J. B. Clark, £60 per month, L. Hillingdon, £20 per month; (d) Profits and Losses were to be shared as follows: J. B. Clark, two-thirds, L. Hillingdon, one-third; (e) L. Hillingdon was to pay in £2,000 as his capital in the business on Jan. 1, 1919. Assume that, as on Dec. 31, 1918, all entries and payments arising out of the terms of the agreement had been carried out. In addition to the accounts necessary for the record of the above, the following balances were extracted from the books of the firm as on Dec. 31, 1918: J. B. Clark, Cap. A/c, Dec. 31, 1917, £20,000; Plant and Machinery, £17,800; Fixtures and Fittings, £2,400; Rent and Rates of Factory, £950; Lighting (Factory £120, Office £24), £144; License and Insurance (Factory £300, Office £72), £372; Rent and Rates of Office, £270; Factory Expenses, £571; Factory Power, £494; Office Expenses, £124; Sales, Cigarettes, £151,862; Sales, Shorts and Sundries, £2,234; Sales Returns, Cigarettes, £321; Sales Returns, Shorts and Sundries, £124; Purchases, Tobacco, £76,294; Purchases, Sundries, £2,421; Purchases, Returns, Tobacco, £1,821; Purchases, Returns, Sundries, £106; Office Salaries, £1,694; Factory Wages, £8,751; Packing Expenses, £1,792; Carriage (Inwards £821, Outwards £940), £1,761; Travellers' Salaries and Expenses, £2,371;

Advertising, £5,000; Stock (Dec. 31, 1917), £16,841; Sundry Crs., £4,682; Sundry Drs., £22,540; Leasehold Factory, £10,000; Cash at Bank, £7,240; Cash in hand, £1,070. Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1918, and B/S as on that date. Before doing so make the following adjustments: (a) Write 10% Depreciation off Machinery and Plant, and 15% off Fixtures and Fittings; (b) Reserve 5% on Sundry Debtors for Bad Debts; (c) Reserve 5% of the net profits for distribution as a bonus to the employees; (d) Stock on Dec. 31, 1918, was valued at £17,500; (e) Carry forward 50% of the cost of Advertising; (f) Credit interest at 5% to Partners' Capital Accounts, but charge no interest on Drawings; (g) Factory Wages, £68, and Office Salaries, £35, were owing at end of year.

(6) Briefly describe a system of book-keeping suitable for the requirements of a Water Company. Submit ruling of not more than one book used by Water Companies which presents features not common to those employed by ordinary trading companies. (7) When G. Dickson submitted his accounts for assessment under Sch. D, the Surveyor of Taxes surcharged him with: (a) 10% Depreciation on Plant and Machinery, which was reduced from 15% to 5%; (b) Loss by Traveller's defalcation; (c) Cost of installing Electric Light in place of gas. Would you advise Dickson to appeal against any of these decisions? If so, what steps should he take, and what success is he likely to meet with?

LONDON CHAMBER OF COMMERCE.

SENIOR AND TEACHERS' DIPLOMA, November 1919.

(1) Give suitable ruling for a Partner's Current (Drawings) Account as it would appear in the Private Ledger of the firm, and enter the following: 1918. Jan. 1, Credit Balance, £100; Drawings, March 31, £250; May 1, £100; July 1, £200; Oct. 1, £100; Dec. 31, £100; Share of Profits for the year, £1,685. 5% interest is allowed on Balances to the credit of Partners at the beginning of the year, and is also charged on Drawings.

(2) Edward Powell employs one Bought Ledger kept on the self-balancing system. From the undermentioned particulars, prepare the Bought Ledger Adjustment Account in the General Ledger, as on Dec. 31, 1918: Jan. 1, 1918, Creditors' balances out-standing in Bought Ledger, £66,521 14s. 8d.; Dec. 31, 1918 (Totals for the year), Credit Purchases, £210,581 19s. 8d.; Cash paid to Creditors, £224,108 11s. 6d.; Discounts and Allowances from Creditors, £981 10s. 4d.; Acceptances given to Creditors, £2,984 10s.; Goods sold to Creditors and settled by contra accounts, £321; Purchases returned to Creditors, £1,491 4s. 7d. (3) How should the following assets be valued in the B/S of a Limited Company for the year ended Dec. 31, 1918: (a) Patent: Original cost, £2,000, Cost of experiments to date, £1,525, Fees paid, £132, Date of grant, Jan. 2, 1916; (b) 30,000 francs in French Bank Notes purchased at 27·22; (c) £5,000 War Loan (forming part investment of reserve fund) subscribed at par and now quoted at 94½.

(4) Machin Bros. purchased goods in Paris from Hugo & Co., costing 30,000 francs, and accepted their bill at 1 m/d, which was paid. The rate of exchange on the day of purchase was 29·25. Show how these transactions would appear in Machin Bros.' books:

(5) George Dickson, trading as Dickson & Co., agreed to take C. Testout, carrying on a similar business, into partnership as on Jan. 1, 1918. In the new partnership agreement: (a) The goodwill of Dickson & Co. was valued at £5,000; (b) George Dickson's capital (after taking into account the Goodwill as above) was agreed at £15,000; (c) C. Testout was to bring in, as on Jan. 1, 1918, Stock, £1,500, Plant, £1,000, Book Debts, £850, and Cash, £1,650; (d) George Dickson was to have two-thirds of the profits, and C. Testout one-third; (e) 5% p. a. interest was to be allowed on Capital, but no interest was to be charged on Drawings; (f) Prior to ascertaining profits, the drawings of partners were to be: George Dickson, £100 per month, and C. Testout, £50 per month. Assume that the entries arising out of the foregoing had all been passed through the books of the firm as on Dec. 31, 1918, and that the following additional balances were extracted from the books on that date: Leasehold Warehouse, £4,055; Fixtures and Fittings, £1,500; Purchases, £12,781; Purchases Returns, £360; Sales, £27,854; Sales Returns, £271; Warehouse Wages, £3,242; Office Salaries, £1,284; Travellers' Salaries and Commission, £1,721; Rent, Rates and Insurance (Warehouse £390, Office £150), £540; Dis. A/c (cr. bal.), £32; Stock (Jan. 1, 1918), £3,820; Warehouse Repairs, £261; Office Expenses, £241; Rent of Garage Sub-let (Warehouse), £100; Bad Debts, £194; Bank Charges, £68; Sundry Creditors, £2,120; Sundry Debtors, £8,200; Cash in hand, £158; Cash at Bank, £3,265; Bills Receivable, £1,240; Warehouse Expenses, £985; Apprentices' premiums received (Warehouse), £160. Prepare Trading and P. and L. A/cs for the year ended Dec. 31, 1918, and B/S as on that date. Before doing so, make the following adjustments: (a) Write 15% Depreciation off Fixtures, and £150 off Leasehold Warehouse; (b) Create Reserve for Bad Debts equal to 5% on Sundry Debtors; (c) Stock on Dec. 31, 1918, was agreed at £4,251; (d) £96 paid to an injured Workman, and included in Warehouse Wages paid, is recoverable from the Employers' Liability Assurance Company.

(6) Explain the meaning of the term "Oncost," and briefly describe two methods of distributing oncost charges in a manufacturing business. (7) The Hoosier Engineering Company, Ltd., carried out the following alterations in their works:—Shop B, valued in the Company's books at £3,500, was pulled down, and a new shop erected on the site costing £8,800. Old materials, valued at £900, were used by the Contractors and allowed for. New Machinery was installed costing £9,860, and old machinery valued in the books at £2,980, was sold for £3,100. The Company's own staff fixed the new machinery at a cost (labour and materials) of £800, the lowest outside tender for the work being £1,000. Show the entries necessary to record the above transactions in the Company's books.

LONDON CHAMBER OF COMMERCE.

SENIOR AND TEACHERS' DIPLOMA, May 1920.

(1) What is "Working Capital"? Submit *pro formâ* B/S of a Limited Company and state the amount of the Company's Working Capital. (2) Where should the undermentioned items appear in the published accounts of a Life Assurance Company: (a) Income Tax on Interest, Dividends, etc.; (b) Surrenders, including surrenders

of bonus; (c) Consideration for Annuities Granted; (d) Dividends paid to Shareholders; (e) Deposit with the High Court.

(3) Edward Herriott purchased £3,000 Arcadian Government 6% Gold Bonds on Sep. 30, 1919, at 95. The stamps, etc., came to 32s. and brokerage was 2s 6d. Interest is payable on Dec. 1 and June 1 each year. Herriott sold the bonds on Dec. 15, 1919, at 93½. Prepare the Investment Account in Herriott's ledger showing these transactions, and assume that Income Tax for the period was 6s. in the £. (4) What is the "Double Account System"? When, and for what purpose was it introduced? Submit *pro formâ* B/S prepared under this system.

(5) The Rayon d'Or Copper Mining Company was registered on Jan. 1, 1919, with a Nom. Cap. of 100,000 Ord. Shares of £1 ea. to work concessions, for which £50,000 was paid. All the Cap. was issued and 15s. per share paid up as on Dec. 31, 1919. One shareholder had also paid up the balance of 5s. per share on his holding of 1,000 shares. On July 1, 1919, the Company issued 100 8% Debs. of £100 ea. at 105, the issue being fully subscribed and paid up. During the year 1919, a deposit of vanadium was found, and the Directors decided to treat all expenditure thereon as capital expenditure pending developments. In addition to the accounts necessary to record these particulars, the following balances were extracted from the Company's books as on Dec. 31, 1919: Buildings, £8,000; Loose Tools, £890; Machinery and Plant, £19,800; Preliminary Expenses, £1,250; Stock of Stores (Jan. 1, 1919), £4,198; Workmen's Wages, £9,872; Workman's Wages (Vanadium), £1,288; Office Furniture, £800; Carriage and Freight, £4,876; Carriage and Freight (Vanadium), £1,124; Salaries, £2,910; Salaries (Vanadium), £150; Stores purchased, £3,241; Stores purchased (Vanadium), £1,124; Law Costs, £329; Rates, Taxes and Licenses, £1,340; Rates, Taxes and Licenses (Vanadium), £250; Light Railway, Wagons, etc., £10,450; Bills Payable, £981; Bank Overdraft, £5,860; Cash in hand, £984; Sundry Crs., £4,238; Sundry Drs., £12,940; Fuel, £3,496; Fuel (Vanadium), £940; Sales of Copper Ore, £46,087; Marine Insurance, £1,298; Office Expenses, £321; Office Expenses (Vanadium), £50; Directors' Fees, £1,000; Transfer Fees, £5. Prepare a Working Account for the year ended Dec. 31, 1919, and a B/S as on that date. Before doing so take the following matters into consideration: (a) Write off 10% Depreciation from Machinery and Plant, 5% from Office Furniture, and £1,000 from Buildings; (b) Stores on hand on Dec. 31, 1919, were valued at £3,876, Light Railway Wagons, etc., at £9,000, and Loose Tools at £600; (c) Write off 50% of the preliminary Expenses; (d) Create Reserve for Bad Debts equal to 5% of the Sundry Drs.; (e) The Shareholder who paid his call in advance is entitled to 5% interest thereon for 12 months, but no entries have yet been made; (f) Debenture interest due Dec. 31, 1919, has not been passed through the books.

(6) The following T. B., taken out on Dec. 31, 1919, was sent from the Paris branch of P. Ravary & Co., to the Head Office in London:—

Dr. Balances. Sundry Drs., 29,386'44; Dis. A/c, 391'36; Salaries 12,432'83; Rent, Rates and Taxes, 8,342'89; Bad Debts, 986'42; Cash in hand, 1,872'34; Cash at Bank, 10,461'75; Remittances to London, 69,852'94; Furniture and Fittings (Rate of Exchange when purchased 25'77), 15,941'34; Stock, Jan. 1, 1919, 20,432'75; Purchases, 62,321'84; Working Expenses, 12,782'64. *Total*, 245,205'54.

Cr. Balances. Sundry Crs., 21,352·94; Sales, 147,510·25; Head Office A/c (bal. Jan. 1, 1919), 76,342·35. *Total*, 245,205·54. Stock on Dec. 31, 1919, 21,862·25. Make the Journal entries required to incorporate the above T. B. in the London books, assuming the following rates of Exchange: Jan. 1, 1919, 38·42; Dec. 31, 1919, 41·25; Average rate for the period, 39·25.

(7) Briefly describe the form in which the accounts of Life Assurance Companies must be published. Give the statutory form of one of the essential accounts and explain the nature of three of the items it contains.

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